

Savanna is standing firm* with a proven strategy for growth. Our extremely strong balance sheet and an equipment base that makes us a preferred supplier and employer, provides the platform to expand our industry-leading service fleet into new international markets.

SAVANNA ENERGY SERVICES CORP.

2007 ANNUAL REPORT

The oilfield services industry has operated through many up and down cycles. **Cycles mean opportunity*** and Savanna intends to use this opportunity to capitalize on our strengths, maintain activity levels in our fleet and, consequently, retain the experienced personnel so essential to long-term success.

*** Savanna's experienced personnel continue to be our greatest resource.**

Savanna's management (including Rig Managers, Field Superintendents and Corporate Management) has a wealth of industry experience and many of them have been with Savanna since inception. This is a testament to not only the quality of individuals that we are able to recruit, but also to the attractiveness of our equipment, our steady activity levels and opportunities associated with our continued growth.

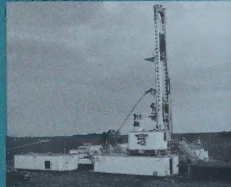
*** Savanna continues to expand and innovate within our training program.**

The training program now involves all new hires, with specific modules for First Nations hires, as well as continued training for current employees.

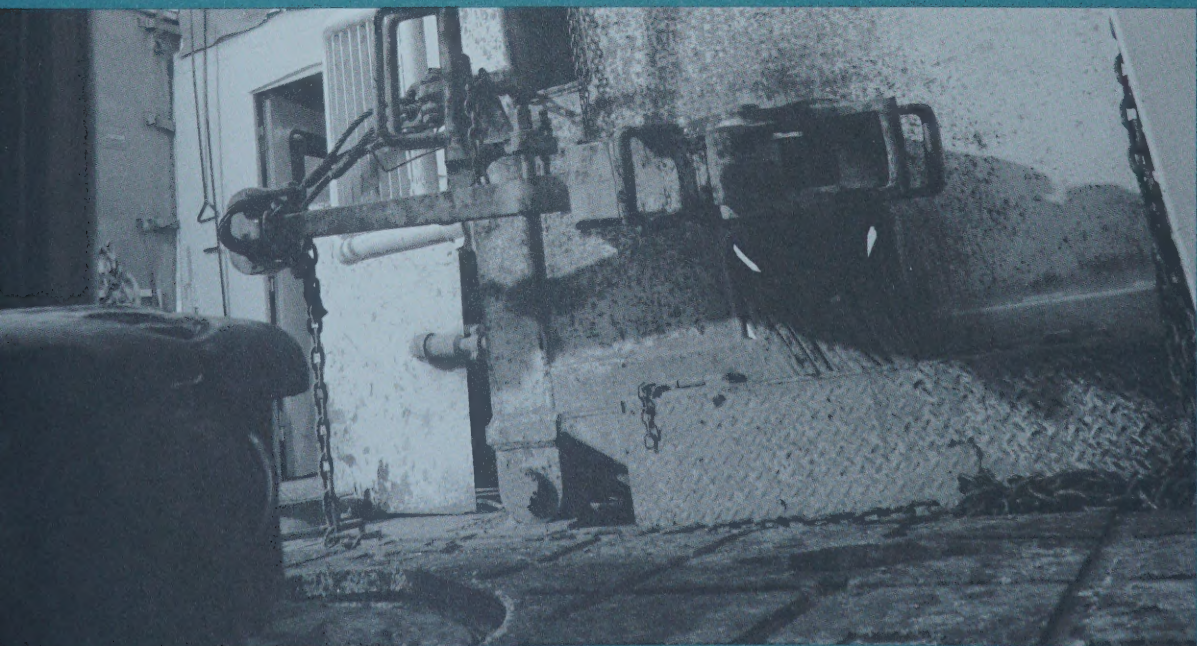
*** Savanna is one of Canada's most active drilling companies, and our share is growing.**

Despite an overall decline in field activity over the past two years, Savanna's product quality and delivery have resulted in increased market share. In 2007, Savanna drilled more wells than any other drilling contractor in Canada.

President's Message



Over the last six years, Savanna has progressed from a virtual start-up to one of the major drilling and well servicing players in Canada. The market has changed, and Savanna's strategy has evolved. However, through it all Savanna has remained unwavering in our focus on quality equipment, personnel and service, along with a commitment to achieving strong, sustainable returns for our shareholders. Getting "more than our share" remains Savanna's mandate in everything we do.



2007 was a very challenging year for the oilfield services industry in Canada. In this environment, Savanna outperformed our competitors by increasing market share and achieving higher-than-industry-average utilization rates.

The cyclicity of the oilfield services industry is well recognized, particularly in Canada, and Savanna's employees and management have operated through many up and down cycles. The Company remains committed to maintaining profitable operations during these slower portions of the oilfield services cycle. We do this through aggressive cost control, but we will not do so at the risk of diminishing or restricting our productive capacity or our ability to capitalize on the eventual return to higher levels of activity. Our best defense is to do our utmost to maintain activity levels in our fleet so we can

retain the experienced personnel so critical to long-term success. I am proud to say that Savanna has excelled in this regard.

While activity during 2007 was muted relative to prior years, Savanna continued to increase market share in both the drilling and well servicing markets. The degree of penetration is best illustrated by our well count. Savanna drilled 4,712 wells in Canada in 2007, the most by any Canadian drilling contractor, and drilled the third most metres in Canada as well. In a slow market, we gained market share, a testament to the quality of our people and equipment.



In the past year, Savanna has executed a range of significant transactions and strategic initiatives to better position the Company to address current activity levels and capture future growth:

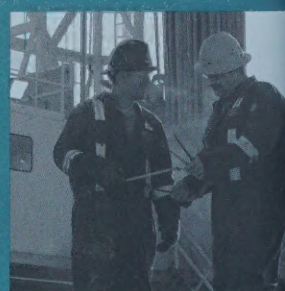
- 1** In January 2007, Savanna sold our wholly-owned wireline division, Ultraline Services Corporation, for **net cash proceeds of \$209 million.**
- 2** In February 2007, Savanna acquired all of the operating assets of a private well servicing company, **increasing our service rig fleet by over 40%** in the process.
- 3** We continued our committed capital-build plan, achieving a current operating fleet of **99 drilling rigs, 56 well servicing units, 8 coiled tubing service units** and associated field locations.
- 4** We introduced our first 2 hybrid drilling rigs into the U.S. market in 2007 and **continue to expand our U.S. operations,** currently served by 7 drilling rigs.
- 5** In March 2008, Savanna opened a Houston office to accelerate our expansion in the U.S., and provide **a springboard to entering other international markets.**

Savanna combined with Western Lakota Energy Services Inc. ("Western Lakota") in August 2006, with Savanna shareholders retaining 51.5% of the resulting entity, and prior Western Lakota shareholders retaining the remaining 48.5%. Despite this virtual merger of equals, under existing accounting rules, Savanna was required to reflect goodwill to the extent of the excess purchase price, as determined based on the share exchange ratio, utilizing Savanna's then share price of \$23.49. Despite the merger of two companies equal in size and although no cash was paid as part of the purchase price, the transaction resulted in goodwill of \$421.3 million and intangible assets of \$27.3 million. Based on anticipated operating levels, coupled with a consideration of the market capitalization of Savanna at December 31, 2007, we determined to write-down the value of goodwill and intangibles reflected on the balance sheet to their current fair values. This has resulted in a write-down of \$128.6 million on goodwill and \$22.8 million on intangibles, creating a total write-down in the 2007 consolidated financial statements of \$151.4 million. This write-down has been reflected on the balance sheet as a reduction in the carrying amount of goodwill and intangibles. The Company

will continue testing for impairment on a regular basis going forward.

The effects of the sale of Ultraline and the write-down of goodwill and intangible assets in 2007 virtually off-set one another from a financial statement perspective. Still, important distinctions need to be drawn between these two events. In the case of Ultraline, it was a cash sale, resulting in a substantially un-leveraged balance sheet for Savanna subsequent to the transaction, and the exit from a business that has since become highly competitive. In the case of the goodwill and intangible asset write-down, it reflects the write-off of balances generated through the merger of Savanna and Western Lakota. Both the initial recording and the subsequent write-down of goodwill and intangible assets were non-cash transactions.

Savanna continued to expand its Métis and First Nations partnership model in Canada, introducing our first well servicing partnerships, and expanding our penetration in this market through the acquisition of a 50% interest in 4 service rigs in December 2007. In recognition of our efforts in expanding our economic, employment and business relationships with the Aboriginal community, we achieved gold-level



standing in the Progressive Aboriginal Relations Program of the Canadian Council of Aboriginal Business in 2007. We are the first and only oilfield services company to have achieved this status. While we are pleased that many of our competitors in the oilfield services industry have adopted similar strategies, reinforcing the tremendous economic and social benefits of the partnership program, Savanna remains the clear leader in these relationships.

Headwinds relating to the oilfield services business in Canada in the near term are significant. Weak gas prices, a strong Canadian dollar, excess oilfield services equipment in Canada, increased LNG imports to North America and the recent Alberta Royalty Review all reduce the likelihood of a near-term recovery in activity levels in the Canadian basin. While Savanna continues to feel the impact of these external forces,

we are confident in the strength of our people, our technology and our balance sheet and remain steadfast in our goal of growing our market share. In addition, the retirement of older marginal equipment by our competitors and the potential to expand our exceptional service fleet into U.S. and international markets will enable Savanna to weather the storm in Canada, and to ultimately profit from the inevitable upturn in demand for drilling and well servicing equipment in all of our target markets.

Respectfully submitted,



Ken Mullen

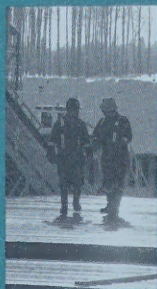
President and Chief Executive Officer
March 11, 2008
Calgary, Alberta

Cautionary Statement Regarding Forward-Looking Information and Statements

Certain statements and information contained in this Annual Report may constitute forward-looking information within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995.

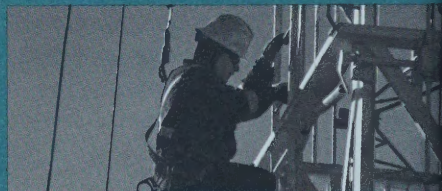
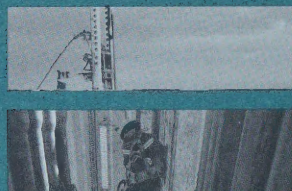
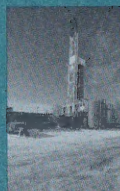
These statements are based on certain factors, assumptions and analysis made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations.

Consequently, all of the forward-looking information and statements made in this Annual Report are qualified by this cautionary statement and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. Except as may be required by law, the Company assumes no obligation to update publicly any such forward-looking information and statements, whether as a result of new information, future events, or otherwise. See "Cautionary Statement Regarding Forward-Looking Information and Statements in the Company's Management's Discussion & Analysis".



Management's Discussion & Analysis

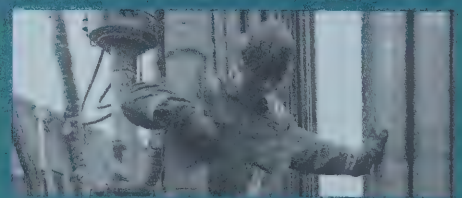
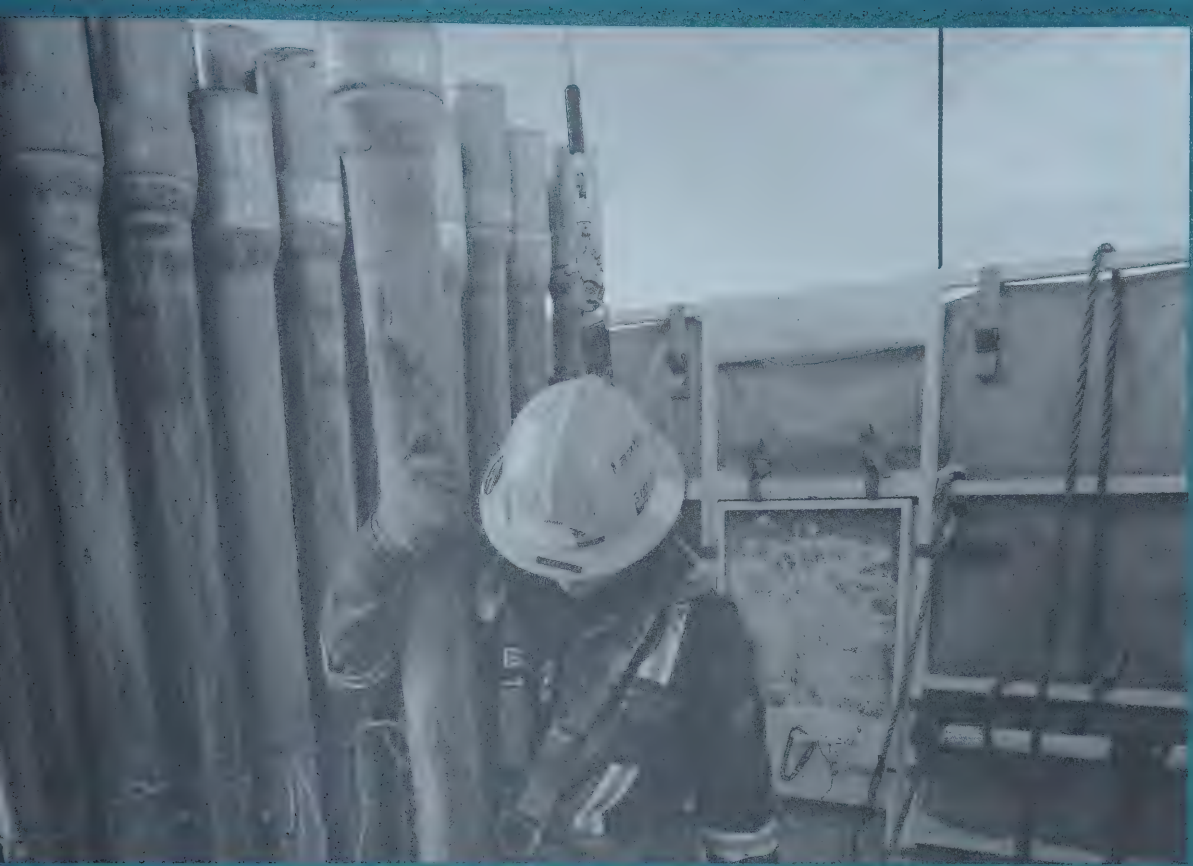
For the Year Ended December 31, 2007



This discussion focuses on key items from the consolidated financial statements of Savanna Energy Services Corp. ("Savanna" or "the Company") for the years ending December 31, 2007 and 2006, which have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion should not be considered all inclusive as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future. This discussion should be read in conjunction with the annual audited consolidated financial statements and the related notes of the Company for the fiscal year ended December 31, 2007. Additional information regarding the Company is available on SEDAR at www.sedar.com. This Management's Discussion and Analysis ("MD&A") is dated March 11, 2008.

Savanna is an oilfield services company operating primarily in Western Canada and the U.S. The Company's overall business is conducted through two major segments: contract drilling and well servicing.

These divisions primarily operate through the following operating companies, all of which are 100% owned subsidiaries of Savanna: Great Plains Well Servicing Corp. ("Great Plains"), Trailblazer Drilling Corp. ("Trailblazer") and Western Lakota Energy Services Inc. ("Western Lakota"). The Company's well servicing division is operated through Great Plains and Accell Well Services ("Accell") (a division of Great Plains), and its drilling division is operated through Trailblazer and Western Lakota. Western Lakota operates through a number of subsidiaries and limited partnerships.

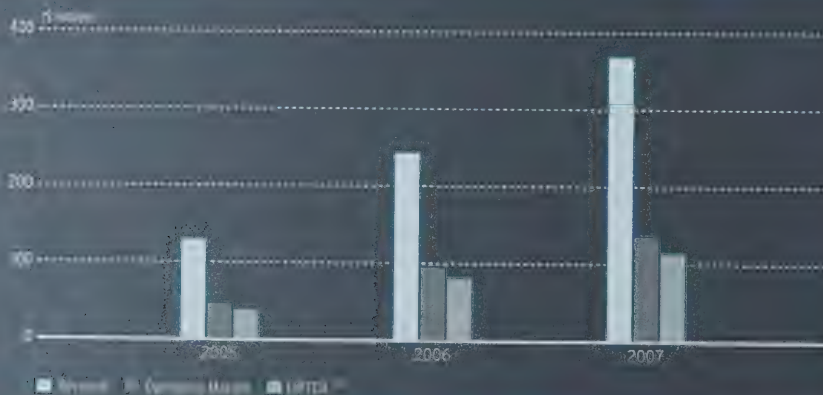


FINANCIAL HIGHLIGHTS

The merger between Savanna and Western Lakota, completed on August 25, 2006, and the acquisitions of Accell and Bear Steam Ltd. ("Bear Steam") on February 16, 2007 account for a substantial portion of the increase in revenues in 2007 compared to the same period in 2006, with the expansion of Savanna's fleet through construction accounting for the remainder. Earnings for the current period include the results of operations for Accell and Bear Steam from the date of acquisition.

Earnings for Ultraline Services Corporation ("Ultraline") for the one month ending January 31, 2007, have been included in net earnings from discontinued operations in the consolidated statement of earnings. For comparative purposes, the results for 2006 reflect the discontinuation of this division and the assets and liabilities relating to Ultraline at December 31, 2006 have been shown as assets and liabilities held for sale.

On the following page is a summary of selected financial information of the Company.



(Stated in thousands of dollars, except per share data)	2007 \$	2006 \$	Change
Operating Results			
Revenue ⁽¹⁾	373,452	247,082	51%
Operating expenses ⁽¹⁾	232,937	148,687	57%
Operating margin ⁽²⁾	140,515	98,395	43%
Net earnings (loss) from continuing operations ⁽²⁾	(84,971)	41,610	(304%)
Per share: basic	(1.44)	1.06	(236%)
Per share: diluted	(1.44)	1.05	(237%)
Impairment loss on goodwill and intangible assets	(151,400)	-	-
Per share: diluted	(2.56)	-	-
Net earnings and gain from discontinued operations, net of tax	140,755	12,988	984%
Per share: basic	2.38	0.33	621%
Per share: diluted	2.38	0.32	644%
Net earnings	55,784	54,598	2%
Per share: basic	0.94	1.39	(32%)
Per share: diluted	0.94	1.37	(31%)
Cash Flows			
Operating cash flows from continuing operations before changes in working capital ⁽²⁾	111,488	76,348	46%
Capital expenditures from continuing operations	(128,212)	(128,145)	-
Dividends paid	(2,974)	-	-
Financial Position			
Working capital ⁽²⁾	25,971	35,163	(26%)
Capital assets	746,063	590,132	26%
Total assets	1,180,092	1,205,939	(2%)
Long-term debt	58,218	155,052	(62%)



MARKET TRENDS

Savanna's business depends significantly on the level of spending by oil and gas companies for exploration, development, production and abandonment activities. Sustained increases or decreases in the price of natural gas or oil could materially impact such activities, and thereby materially affect our financial position, results of operations and cash flows.

Due to extreme fluctuations in the commodity prices for both oil and natural gas, the oil and gas industry is subject to significant volatility. Natural gas prices have weakened over the past year and, coupled with an expanded capital base in the energy services industry, activity levels have decreased significantly. As a result of varying commodity prices for both oil and natural gas, there have been shifts by Savanna customers between natural gas drilling and oil drilling and there remains significant uncertainty expressed by exploration and development companies, juniors through seniors, regarding their drilling and completion budgets for 2008. In the medium and long term, the Company remains confident that it will retain more than its share of the market and that overall market activity will increase.

Savanna has expanded its U.S. presence over the past year, and is continuing to assess further expansion of both its conventional and hybrid drilling rig fleet in various U.S. basins. Hybrid drilling rigs were added to the U.S. fleet, resulting in a total number of 6 rigs operating in the U.S. during 2007. Additionally, Savanna continues to assess further international expansion of its fleet, weighing the potential benefits of such expansion against the inherent political and operating risks.

BUSINESS ACQUISITIONS

- a) On February 16, 2007, Savanna purchased the assets of Accell for total consideration of \$61.9 million. Total consideration was comprised of \$46.3 million of cash and 839,000 common shares of Savanna at a deemed value of \$18.47 per share, net of acquisition costs of \$0.1 million.
- b) Also, on February 16, 2007, Savanna completed the acquisition of all the outstanding shares of Bear Steam for total consideration of \$6.0 million. The acquisition was funded with \$4.5 million of cash and 81,000 common shares of Savanna at a deemed value of \$18.47 per share.
- c) On June 1, 2007, Savanna completed the acquisition of the 14% minority interest of one of its subsidiaries, Akuna Drilling Trust ("Akuna"), held by First Nations and Métis communities and associations. As a result of the transaction, Savanna now owns 100% of Akuna. The acquisition was funded with \$3.0 million of cash and the issuance of 255,158 common shares of Savanna at a deemed value of \$21.81 per share, for total consideration of \$8.5 million.

- d) On July 26, 2007, Savanna acquired 50% of Command Coil Services Limited Partnership ("Command") held by a First Nation's partner, which included 5 coiled tubing service units, for a net purchase price of \$2.0 million paid in cash. As a result of the transaction, Savanna now owns 100% of the 8 units operating in this fleet.
- e) On December 21, 2007, Savanna acquired a 50% interest in 4 service rigs and related assets for a net purchase price of \$1.1 million paid in cash. These rigs are held in a limited partnership that is 50% owned by each of the Company and a First Nations community.

All acquisitions have been accounted for using the purchase method with the results of operations being included in the consolidated financial statements from the date of acquisition. Savanna common shares issued on all the acquisitions were valued at the average closing price of the Savanna common shares, for the five-day trading period ended on the trading day prior to the closing date of the acquisitions.

The purchase allocations are as follows:

(Stated in thousands of dollars)	(a) \$	(b) \$	(c) \$	(d) \$	(e) \$	Total \$
Net assets acquired:						
Cash	-	160	-	81	-	241
Non-cash working capital	-	(160)	(3,717)	(1,092)	-	(4,969)
Settlement of note receivable	-	-	-	(575)	-	(575)
Property and equipment	51,020	2,865	7,701	3,478	2,910	67,974
Intangibles	4,821	1,558	-	-	-	6,379
Goodwill	6,053	2,067	4,682	1,398	-	14,200
Long-term debt	-	-	(117)	(1,290)	(1,810)	(3,217)
Future income taxes	-	(490)	-	-	-	(490)
	61,894	6,000	8,549	2,000	1,100	79,543
Consideration:						
Common shares issued	15,500	1,500	5,565	-	-	22,565
Cash	46,394	4,500	2,984	2,000	100	55,978
Payable subsequent to closing	-	-	-	-	1,000	1,000
Total consideration	61,894	6,000	8,549	2,000	1,100	79,543

EQUIPMENT FLEET

Savanna's equipment fleet has grown substantially from the prior year through internal growth, as well as through mergers and acquisitions.

	2007	2006	Change
Drilling Rigs			
Heavy and ultra-heavy telescoping doubles	40	35	5
Hybrid drilling	45	38	7
Pipe-arm single	1	1	-
Conventional shallow/surface/coring	10	9	1
Total drilling rigs (gross)	96	83	13
Total drilling rigs (net) *	91.5	78.5	13
Service Rigs			
Service rigs	56	24	32
Coil tubing service units	8	6	2
Total service rigs (gross)	64	30	34
Total service rigs (net) † ± *	61.5	27.5	34

* 9 drilling rigs and 4 service rigs are owned in 50/50 limited partnerships. On January 31, 2008, the Company acquired a 50% interest in a drilling rig and related assets for cash consideration of \$4.1 million. The rig was previously held in a partnership that was 50% owned by each of Western Lakota and a First Nations community.

† A 50% interest in a service rig has been included in inventory since it is being held for sale into a partnership with an Aboriginal community. The sale of this service rig into a partnership closed effective January 31, 2008.

± 5 coil tubing service units held in a 50/50 limited partnership were acquired on July 26, 2007 bringing the total from 5.5 (net) to 8 coil tubing service units.

The Company has committed to construct 3 additional drilling rigs which were under construction at December 31, 2007 and excluded from the equipment fleet summary in the previous table.

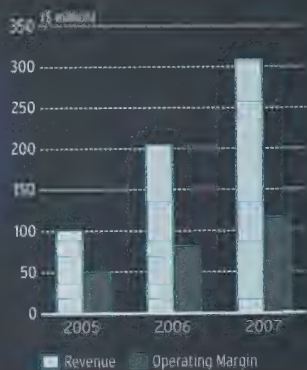
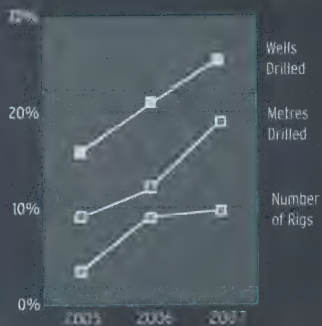
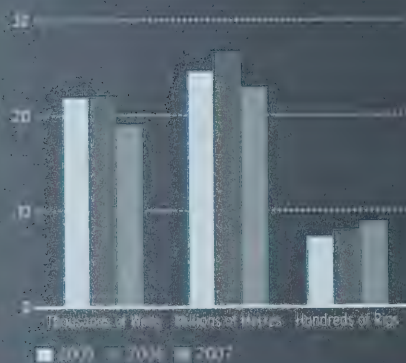
COMPOSITION OF EQUIPMENT FLEET (Gross)



CANADIAN DRILLING ACTIVITY

SAVANNA'S % SHARE OF CANADIAN DRILLING ACTIVITY

DRILLING REVENUE & MARGINS



CONTRACT DRILLING

Savanna provides proprietary hybrid drilling rigs, telescoping double drilling rigs, a pipe arm single drilling rig and coring delineation rigs through Trailblazer, Western Lakota, and Akuna.

DRILLING SERVICES

(Dollar amount stated in thousands, except revenue per operating day)	2007	2006	Change
Revenue ⁽¹⁾	\$ 309,395	\$ 204,498	51%
Operating expenses ⁽¹⁾	\$ 193,481	\$ 123,466	57%
Operating margin ⁽²⁾	\$ 115,914	\$ 81,032	43%
Number of operating days *	14,533	9,764	49%
Revenue per operating day	\$ 21,289	\$ 20,944	2%
Number of spud to release days * †	12,180	8,373	45%
Wells drilled †	4,929	4,706	5%
Total meters drilled †	4,442,027	3,350,741	33%
Utilization †	46%	50%	(8%)
Industry average utilization ‡	37%	55%	(33%)

* The number of operating days and number of spud to release days are all on a net basis, which means only Savanna's proportionate share of any rigs held in limited partnerships have been included.

† Savanna reports its rig utilization based on spud to release time for the rigs and excludes moving, rig up and tear down time, even though revenue is earned during this time. Savanna's rig utilization, spud to release days, wells drilled and total metres drilled exclude Akuna drilling rigs as the operating environment is not comparable to Trailblazer and Western Lakota rigs. However, the Akuna rigs are included in total fleet numbers.

‡ Source of industry figures: Canadian Association of Oilwell Drilling Contractors (CAODC).

The decrease in utilization experienced by the drilling division was offset by the effect of a larger fleet and increased revenue per operating day, creating an overall increase in revenues and operating margin for the year ending December 31, 2007, as compared to 2006. The drilling division was able to increase its share of the market as evidenced by a significantly higher than industry average utilization rate for the year ending December 31, 2007. Operating margins for the year did not increase at the same ratio as revenue due to increasing operating costs, specifically direct labour. The Company was able to achieve an increase in revenue per operating day, despite a slow-down in the market in 2007, due to the inclusion of Western Lakota results for a full twelve months, more rigs working in the U.S., and the value placed on its equipment by customers relative to competitors.

During 2007, Savanna averaged a deployed fleet of 83 net rigs (2006 - 42) and exited the year operating a fleet of 91.5 net rigs (2006 - 78.5 net rigs).

(Stated in thousands of dollars)	2007 \$	2006 \$
Revenue	-	5,703
Operating expenses	-	3,848
Operating margin ⁽¹⁾	-	1,855

RIG SALES

In 2006, Savanna sold a 50% interest in 2 - 3,600 metre telescoping double drilling rigs to two separate First Nations communities. The rigs are currently operating through 50/50 limited partnerships as a result of the sales. Proceeds of the sales were \$10.5 million which was settled with cash of \$4.5 million and two promissory notes totalling \$6.0 million. The promissory notes bear interest at prime plus 10% and will be repaid through partnership distributions to the First Nations communities. The cash received and a proportionate share of the cost of sales was recognized immediately. The remaining revenue and cost of sales was recorded as deferred net revenue and will be recorded as revenue as the promissory notes are collected.



WELL SERVICING

Savanna provides well servicing throughout Western Canada through Great Plains and Accell, operating double and single well servicing rigs, and through Command, operating coiled tubing service units.

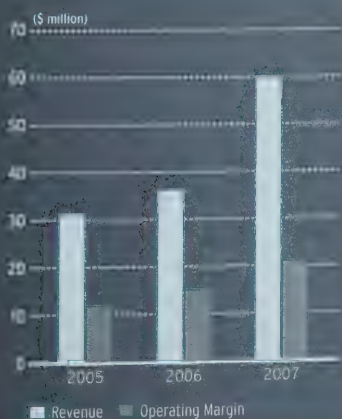
(Dollar amounts stated in thousands, except revenue per hour)	2007	2006	Change
Revenue	\$ 60,931	\$ 36,881	65%
Operating expenses	\$ 39,456	\$ 21,373	85%
Operating margin ⁽¹⁾	\$ 21,475	\$ 15,508	38%
Number of hours	76,132	46,702	63%
Revenue per hour	\$ 800	\$ 790	1%
Utilization *†	47%	60%	(22%)

* Utilization is based on standard hours of 3,650 per rig, per year. Industry average utilization figures, specific to well servicing, are not available.

† The utilization rate excludes the coiled tubing service units operated through Command since these units are not comparable in size or operations to the division's service rigs.

The increase in revenue, compared to the same period in the prior year, was a result of an increase in fleet size due to the acquisition of Accell. Operating margins for the year did not increase at the same ratio as revenue due to increasing operating costs, specifically direct labour. Although this division achieved revenue per hour rates consistent with the prior year, the Company's increase in available equipment, coupled with the significant reduction in demand in the oil and gas market, resulted in a 22% decrease in utilization rates from the prior year.

WELL SERVICING REVENUE & MARGINS



During 2007, the well servicing division operated an average of 43 service rigs, 6.5 coiled tubing service units and 34 boilers, compared to the same period in 2006 where the division operated an average of 22 service rigs, 3.5 coiled tubing service units, and 12 boilers.

The well servicing division exited the current year with 56 service rigs, 8 coiled tubing service units and 34 boilers.

DISCONTINUED OPERATIONS

Effective January 31, 2007, the Company closed the sale of its wireline division, Ultraline, for net proceeds of \$208.0 million plus a working capital adjustment of \$1.1 million.

Immediately prior to the sale, Ultraline declared and paid a dividend of \$5.5 million to Savanna pursuant to the purchase and sale agreement which has been eliminated upon consolidation of the financial statements for the current period. Also included in the sale were specific real estate assets and office equipment owned by Savanna.

(Stated in thousands of dollars)	2007 \$	2006 \$
From discontinued operations:		
Revenue	6,011	58,243
Net earnings	330	12,988
Gain on sale, net of tax	140,425	-

The decrease in revenue and net earnings from discontinued operations is due to the fact that the 2007 results only include one month of Ultraline earnings whereas 2006 includes 12 months of operations based on the effective sale date of January 31, 2007.

Stock compensation expense of \$0.7 million (2006 - \$0.6 million) has been included in net earnings from discontinued operations for the year ended December 31, 2007 and relates primarily to the remaining unamortized portion of stock compensation relating to options held by Ultraline employees.

The gain on sale of discontinued operations was based on net proceeds of \$209.1 million net of \$0.1 million in legal and property tax expenses. The net book value of Savanna's interest in Ultraline and the related assets that were sold on January 31, 2007 was \$36.7 million, resulting in a gain of \$172.4 million (\$140.4 million net of tax).

OTHER FINANCIAL INFORMATION

(Dollar amounts stated in thousands)	2007	2006	Change
From continuing operations:			
General and administrative expenses	\$ 16,442	\$ 11,141	48%
as a % of revenue	4.4%	4.5%	-
Stock-based compensation	\$ 6,137	\$ 4,233	45%
Depreciation and amortization	\$ 33,868	\$ 17,486	94%
Interest on long-term debt	\$ 3,969	\$ 5,197	(24%)
Foreign exchange loss and other expenses	\$ 2,146	\$ 48	4,371%
Impairment loss on goodwill and intangibles	\$ 151,400	\$ -	0%
Income tax expense	\$ 10,872	\$ 19,006	(43%)
Effective income tax rate	15.0%	31.5%	(52%)

The increase in general and administrative expenses and depreciation expense reflects the increased scale of operations and expanding capital asset base of the Company. Administrative expenses as a percentage of revenue remained consistent with the prior year.

The increase in stock compensation expense is a result of stock options issued in the first quarter of 2007 plus the inclusion of stock compensation expense on pre-merger Western Lakota options for a full twelve months.

Included in depreciation and amortization expense is the amortization of intangible assets. Intangible assets are amortized over their expected period of benefit. The increase in depreciation and amortization is a result of the significant increase in capital assets from the prior year due to the merger with Western Lakota late in Q3, 2006 plus all of the 2007 business acquisitions and capital expenditures discussed previously in this MD&A.

The decrease in interest expense is a direct result of the full repayment of the Company's revolving debt facility in March, 2007 with proceeds from the Ultraline sale.

The increase in foreign exchange loss and other expenses is primarily a result of a weakening U.S. dollar in relation to the Canadian dollar, and its effect on the Company's U.S. working capital in 2007.

At December 31, 2007, impairment tests on goodwill and intangibles were performed which indicated that the carrying value exceeded the fair value, resulting in an impairment loss on goodwill of \$128.6 million and \$22.8 million on intangible assets.

Included in income tax expense for 2007 are future income tax recoveries relating to a reduction of tax rates enacted in December 2007, a change in the expectation of future timing difference reversals, and a future income recovery relating to the impairment loss on intangible assets. In addition, the \$151.4 million impairment loss on intangibles and goodwill is a non-deductible item for current income tax purposes. The Company's operations are complex and computation of the provision for income taxes involves tax interpretations, regulations, and legislation that are continually changing. There are matters that have not yet been confirmed by taxation authorities; however, management believes the provision for income taxes is adequate.

FINANCIAL CONDITION AND LIQUIDITY

The market risks outlined previously can significantly affect the financial condition and liquidity of the Company. Savanna's ability to access its debt facilities is directly dependent on, among other factors, its total debt to equity ratios and trailing cash flows. Additionally, the ability of Savanna to raise capital through the issuance of equity could be restricted in the face of a continuing reduction in oilfield service demand. Although Savanna cannot anticipate all eventualities in this regard, the Company maintains what it believes to be a conservatively leveraged balance sheet, and makes every effort to ensure a balance between maximizing returns for our shareholders over both the short and long term activity levels in the oil and gas services business.

WORKING CAPITAL AND CASH PROVIDED BY OPERATIONS

(Stated in thousands of dollars, except per share data)	2007 \$	2006 \$	Change
Operating cash flows from continuing operations before changes in working capital ⁽²⁾	111,488	76,348	46%
Per diluted share	1.88	1.92	(2%)
Change in cash (net of bank indebtedness)	9,382	(9,887)	195%

The increase in operating cash flows before changes in working capital is a direct result of the Company's expanding capital base through internal growth, as well as through the merger with Western Lakota in Q3 2006 and all of its 2007 business acquisitions.

(Stated in thousands of dollars)	2007 \$	2006 \$	Change
Working capital held outside of partnerships	20,679	26,874	(6,195)
Working capital held in partnerships *	5,292	8,289	(2,997)
Working capital ⁽¹⁾	25,971	35,163	(9,192)

* Working capital held in limited partnerships owned 50% by the Company. The amount presented is the Company's proportionate share.

The decrease in working capital is a result of the sale of Ultraline and its related working capital, the Company using cash to build its equipment base through construction and acquisition and to decrease its debt obligations, and a decrease in activity during 2007, all of which had a negative impact on cash and receivables relative to current liabilities.

At December 31, 2007, there was \$215.0 million available for use on the Company's term revolving credit facility.

INVESTING ACTIVITIES

(Stated in thousands of dollars)	2007 \$	2006 \$	Change
From continuing operations:			
Capital expenditures	(128,212)	(128,145)	-
Cash paid on acquisitions, net of cash acquired	(55,737)	(2,240)	2,388%
From discontinued operations:			
Cash received on sale of discontinued operations, net of costs	209,017	-	-

The majority of the 2007 capital expenditures relate to costs associated with the manufacture of drilling rigs for use in the contract drilling division.

As described previously, the \$55.7 million paid on acquisitions relates to the Accell, Bear Steam, Akuna, Command and service rig purchases.

The cash received on the sale of discontinued operations relates to the disposition of the Company's wireline division also described previously in this MD&A.

FINANCING ACTIVITIES

(Stated in thousands of dollars)	2007 \$	2006 \$	Change
From continuing operations:			
Advances on operating loans	-	337	(100%)
Repayments on operating loans	(24)	(16,100)	(100%)
Repayment of long-term debt	(142,778)	(73,709)	94%
Dividends paid	(2,974)	-	-
Issuance of long-term debt	42,250	123,000	(66%)
Proceeds from stock options exercised	2,947	4,896	(40%)

Savanna had long-term debt outstanding of \$43.1 million (December 31, 2006 - \$136.3 million) at December 31, 2007, excluding the \$15.2 million (December 31, 2006 - \$18.8 million) current portions thereof.

The amount drawn on the Company's \$250.0 million revolving debt facility increased from \$35.0 million at December 31, 2007 to \$100.0 million at the date of this MD&A. The increase is a result of the payment of 2007 corporate income taxes and an increase in working capital requirements typically experienced in the first quarter.

In each of the third and fourth quarters of 2007, the Company declared a dividend of \$0.025 per share, resulting in total dividends declared of \$3.0 million.

The average price of the stock options exercised during 2007 was \$6.48 (2006 - \$4.77) per share.

At the date of this report, the number of common shares outstanding was 59.3 million and the number of stock options outstanding was 2.0 million, the proceeds from which, if exercised, would be \$39.8 million.

The Company issued 1,175,000 shares at an average price of \$19.20 per share as part of the consideration of its 2007 business acquisitions. These were non-cash transactions and have been excluded from the statement of cash flows for the year ending December 31, 2007.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company incurs contractual obligations, primarily related to short-term and long-term indebtedness. The following table sets forth the Company's contractual obligations for the following items as at December 31, 2007:

(Stated in thousands of dollars)	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$	Total \$
Long-term debt obligations *	15,168	15,663	10,693	16,634	60	58,218
Operating lease and construction commitments	5,213	2,646	1,800	1,644	1,112	12,415
Total obligations	20,381	18,309	12,493	18,278	1,172	70,633

* Assumes the revolving credit facility is not renewed in 2008.

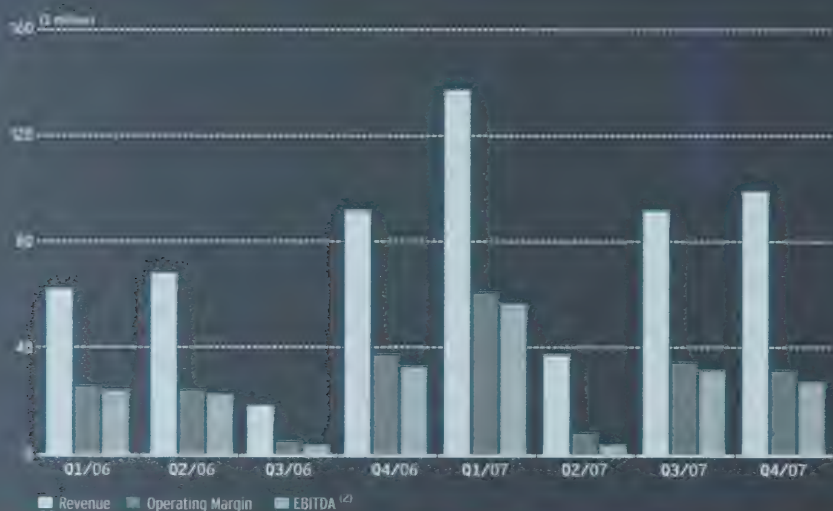
For 2007 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, lease revenue, management fees and other fees in the amount of \$3.2 million, net of inter-company eliminations (2006 - \$0.5 million) were received from partnerships that are owned 50% by the Company. Lease amounts have been recorded as revenue and management and other fees have been recorded as a reduction of either operating expenses or general and administrative expenses in the consolidated statement of earnings. The related party transactions were in the normal course of operations and have been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties.

QUARTERLY RESULTS

The quarterly results of Savanna are markedly affected by weather patterns throughout our operating area in Canada. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter. As a result of this, the variation on a quarterly basis, particularly in the first and second quarters, can be dramatic year-over-year independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters. All prior period amounts have been restated to reflect the discontinuation of Ultraline operations.



SUMMARY OF QUARTERLY RESULTS

(Stated in thousands of dollars, except per share data)	2007 \$	2006 \$	Change
Revenue from continuing operations			
Q1 ⁽¹⁾	138,817	63,099	120%
Q2	39,097	20,067	95%
Q3	93,735	70,041	34%
Q4 ⁽¹⁾	101,804	93,873	8%
Net earnings from continuing operations			
Q1	31,580	12,021	163%
Q2	(3,493)	(1,015)	244%
Q3	12,581	12,466	1%
Q4	(125,639)	18,138	(793)%
Net earnings from continuing operations per share diluted			
Q1	0.54	0.43	35%
Q2	(0.06)	0.03	100%
Q3	0.21	0.02	90%
Q4	(2.11)	0.01	(781)%
Net earnings			
Q1	172,492	19,959	764%
Q2	(3,650)	0	-
Q3	12,581	14,625	(15)%
Q4	(125,639)	19,812	(734)%
Net earnings per share diluted			
Q1	2.94	0.67	339%
Q2	(0.06)	0.00	-
Q3	0.21	0.36	(42)%
Q4	(2.11)	0.34	(721)%

Revenue for the fourth quarter of 2007 showed a slight increase from the same period in 2006 as a result of a larger equipment base through construction and through acquisitions, which was offset by weaker market conditions. The large decrease in net earnings from continuing operations year-over-year is a result of the \$151.4 million impairment loss on intangibles and goodwill recorded in the fourth quarter of 2007.

QUARTERLY STATISTICS

For the Three Months Ended December 31

(Stated in thousands of dollars, except revenue per operating day or per hour)	2007	2006	Change
CONTRACT DRILLING			
Revenue ⁽¹⁾	\$ 84,340	\$ 80,319	5%
Operating expenses ⁽¹⁾	\$ 57,498	\$ 46,439	24%
Operating margin ⁽²⁾	\$ 26,842	\$ 33,880	(21%)
Number of operating days *	4,195	3,631	16%
Revenue per operating day	\$ 20,105	\$ 22,120	(9%)
Number of spud to release days * †	3,537	3,086	15%
Wells drilled	1,637	1,414	16%
Total metres drilled	1,228,822	1,168,300	5%
Utilization †	50%	49%	2%
Industry average utilization ‡	37%	47%	(21%)
RIG SALES			
Revenue	\$ -	3,452	-
Operating expenses	\$ -	2,206	-
Operating margin ⁽²⁾	\$ -	1,246	-
WELL SERVICING			
Revenue	\$ 17,409	\$ 10,104	72%
Operating expenses	\$ 10,658	\$ 6,240	71%
Operating margin ⁽²⁾	\$ 6,751	\$ 3,864	75%
Number of hours	22,860	12,295	86%
Revenue per hour	\$ 762	\$ 822	(7%)
Utilization [¥] ±	49%	56%	(13%)

* The number of operating days and number of spud to release days are all on a net basis, which means only Savanna's proportionate share of any rigs held in limited partnerships have been included.

† Savanna reports its rig utilization based on the spud to release time for the rigs and excludes moving and rig up and tear down time, even though revenue is earned during this time. Savanna's rig utilization and spud to release days exclude Akuna drilling rigs as the operating environment is not comparable to Trailblazer's and Western Lakota's rigs.

‡ Source of industry figures: Canadian Association of Oilwell Drilling Contractors (CAODC).

¥ Utilization is based on standard hours of 3,650 per rig per year. Industry average utilization figures, specific to well servicing, are not available.

± The utilization rate excludes the coiled tubing service units operated through Command since these units are not comparable in size or operations to the division's service rigs.

In the fourth quarter of 2007, aggregate revenue from contract drilling increased by 5% relative to the prior year; however, operating expenses increased substantially from the same period in the prior year as a result of rising labour and fuel expenses, causing operating margins to decrease by 21%. In addition, the Company experienced decreased revenue per operating day as demand and activity in the oil and gas industry weakened relative to the same period in the prior year. Despite the slow-down in the overall industry, the Company's drilling division was able to increase its share of the market as evidenced by a 13% higher utilization rate than industry.

The well servicing division experienced an increase in aggregate revenues and operating margin in the fourth quarter of 2007 compared to the same quarter in the prior year due to an increase in equipment as a result of the Accell acquisition early in 2007. This division was negatively impacted by reduced demand in the fourth quarter of 2007, as evidenced by decreased hourly and utilization rates from 2006 fourth quarter levels.

RISKS AND UNCERTAINTIES

The Company's primary activity is the provision of contract drilling and oilfield services to the oil and gas industry in Western Canada. The demand, price and terms of contract drilling services are dependent on the level of activity in this industry, which in turn depends on several factors, including:

- Crude oil, natural gas and other commodity prices, markets and storage levels;
- Expected rates of production and production declines;
- Discovery of new oil and natural gas reserves;
- Availability of capital and financing;
- Exploration and production costs;
- Pipeline capacity and availability;
- Manufacturing capacity and availability of supplies for rig construction; and
- Government imposed royalties and taxes.

Other risk factors that affect the oil and gas industry and the Company are as follows:

FINANCIAL RISK MANAGEMENT

The nature of the Company's operations and the issuance of long-term debt expose the Company to fluctuations in foreign currency exchange rates and interest rates. The Company does not manage these risks through the use of derivative instruments.

FOREIGN CURRENCY EXCHANGE RISK

The Company is exposed to foreign currency fluctuations as certain revenues and expenses derived from its integrated U.S. operations are denominated in U.S. dollars. Excess U.S. dollar balances are converted to Canadian dollars on a regular basis.

INTEREST RATE RISK

Savanna is exposed to fluctuations in short-term interest rates from its floating-rate debt as their market value is sensitive to interest rate fluctuations.

At December 31, 2007, approximately 40% (December 31, 2006 - 24%) of operating loans and long-term debt were subject to fixed rates and 60% (December 31, 2006 - 76%) were subject to variable rates. The Company's effective interest rate on all its fixed-rate long-term debt is not materially different from actual rates.

CREDIT RISK

As outlined above, lower commodity prices have a direct impact on the Company's customers and their ability to generate cash flows, which in turn directly impacts the demand for Savanna services. These factors are clearly beyond the control of Savanna, and therefore represent significant uncertainty for the Company overall. Savanna has been very proactive in its approach to credit management and has procedures in place to mitigate credit risk.

WEATHER

The ability to move and operate drilling equipment is often dependent on weather conditions. As warm weather arrives in the spring and the frost begins leaving the ground, many secondary roads become too soft to support heavy equipment until they are completely dry. The inability to move equipment during this period (spring break-up) can have a direct effect on operations and can result in a period when some or all of the drilling rigs may be inactive. In addition, the ability to frequently move drilling equipment to new locations is even more critical in the shallow drilling market because of the speed and efficiency with which Savanna's rigs carry out this process. To mitigate this risk, efforts are made to work with customers to position drilling equipment before spring break-up so that it will be working as much as possible during or immediately after this period.

WORKFORCE AVAILABILITY

The Company's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Aboriginal partnerships

that the Company has formed have provided access to a large, capable workforce of Aboriginal employees. The Company strives to retain employees by providing a safe working environment, competitive wages and benefits, employee savings plans and an atmosphere in which all employees are treated equally regarding opportunities for advancement. The Company also operates an innovative drilling rig training program designed to provide inexperienced individuals with the skills required for entry into the drilling and well servicing industry.

EQUIPMENT AND TECHNOLOGY

The ability of the Company to meet customer demands in respect of performance and cost will depend upon continuous improvements in its drilling rigs. The Company was founded on rigs designed and built internally and management believes these rigs continue to be among the newest and most efficient in the industry. The experience of the Company's rig construction team and the knowledge gained in the six years it has been building rigs has led to new and innovative solutions to its customers' unique problems. The advancements the Company has made since its beginnings have been an important part of its success, and the Company intends to make every effort to continue employing high-quality people and to work with its customers to remain on the leading edge of technology.

Savanna carries what it believes to be adequate property and comprehensive public liability insurance to protect itself in the event of destruction or damage to its property or equipment and to limit exposure in the face of unforeseen incidents.

CONTINGENCIES

At December 31, 2007, the Company was subject to legal claims with respect to the Company's patents. The outcome of these matters is not determinable at this time.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on the consolidated financial statements which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenues and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes. Management considers the following to be the most significant of these estimates:

DEPRECIATION AND AMORTIZATION

The accounting estimate that has the greatest effect on the Company's financial results is the depreciation of capital assets and asset impairment write-downs, if any. Depreciation of capital assets is carried out on the basis of the estimated useful lives of the related assets. Equipment under construction is not depreciated until it is put into use. Included in capital assets is equipment acquired under capital leases. All equipment is depreciated based on the straight-line method, utilizing either years, in the case of all non-drilling assets, or operating days, in the case of drilling equipment. All equipment is depreciated net of expected residual values of 10% - 20%.

Assessing the reasonableness of the estimated useful lives of property and equipment requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. Additionally, the Company canvasses its competitors to ensure it utilizes methodologies and rates consistent with the remainder of the sector in which Savanna operates. Changes in circumstances (such as technological advances), changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations may result in the actual useful lives differing from the Company's estimates.

A change in the remaining useful life of a group of assets, or their expected residual value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. These changes are reported prospectively when they occur.

STOCK-BASED COMPENSATION

Compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model, to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility and share prices.

Stock compensation expense also includes the value of deferred share units ("DSU's") held by directors and officers and outstanding at the end of the year. DSU's are recognized when vested and valued on a mark-to-market basis. DSU's will be settled in cash on the date the director ceases to be a director of the Company or within 120 days of termination of an officer.

GOODWILL

Goodwill is the amount that results when the cost of acquired assets exceeds their fair values, at the date of acquisition. Goodwill is recorded at cost, not amortized, and tested at least annually for impairment. The impairment test includes the application of a fair value test, with

an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill. Due to the amount of goodwill on the company's consolidated balance sheet, any impairment could have a significant effect on the Company's financial results.

At December 31, 2007 impairment tests were performed on goodwill using discounted future cash flows. The tests indicated that the carrying value exceeded the fair value. The conditions which led to the impairment of goodwill were impacted by external factors such as depressed natural gas pricing, new government regulations regarding oil and gas royalties, and currency exchange rates which negatively impacted industry activity levels and utilization rates. As a result, a write-down of \$128.6 million (2006 - nil) relating to goodwill impairment has been included in the consolidated statement of earnings and comprehensive income. The carrying amount of goodwill was reduced to \$309.6 million for the year ended December 31, 2007.

INTANGIBLE ASSETS

Intangible assets consist of the value attributed to Aboriginal relationships, customer relationships, non-competition agreements, and trade names acquired plus the costs associated with securing the Company's intellectual property rights. The initial valuation of intangibles at the closing date of any acquisition requires judgment and estimates by management with respect to identification, valuation and determining expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit. Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. Due to the amount of intangible assets on the Company's consolidated balance sheet, any impairment could have a significant effect on the Company's financial results.

At December 31, 2007, impairment tests were performed on intangibles using primarily multiple period excess earnings analyses. The tests indicated that the carrying amounts of certain of these assets exceeded their fair value. The conditions which led to the impairment of intangibles were impacted by external factors such as depressed natural gas pricing, new government regulations regarding oil and gas royalties, and currency exchange rates which negatively impacted industry activity levels and utilization rates. As a result, a write-down of \$22.8 million (2006 - nil) relating to intangible asset impairment has been included in the consolidated statement of earnings and comprehensive income. The carrying amount of intangibles was reduced to \$7.4 million for the year ended December 31, 2007.

ACCOUNTING POLICIES

The significant accounting policies are the same as those set out in the Company's most recent annual audited consolidated financial statements. During the year, the Company adopted several new accounting policies, the most significant of which are as follows:

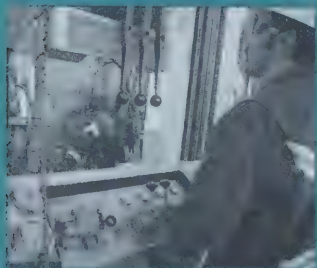
OTHER ASSETS

Other assets include rig re-certification costs which are being amortized on a straight-line basis over their expected useful lives (three to four years). Amortization expense related to re-certification costs is included in operating expenses in the consolidated financial statements.

DERIVATIVE INSTRUMENTS

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices. Embedded derivatives are derivatives embedded in a host contract or other financial instrument. They are recorded separately from the host contract or financial instrument when their economic characteristics and risks are not clearly and closely related to those of the host contract or financial instrument. The terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not measured at fair value.

On January 1, 2007, the Company adopted the new CICA accounting standard 3865 with respect to hedging derivatives and the application of hedge accounting, and 3855 with respect to derivatives embedded in financial instruments. These standards were adopted on a retrospective basis with no restatement of prior period financial statements. The Company has not designated any hedging relationships or embedded derivatives requiring separate recognition as at January 1, 2007 or for the year ended December 31, 2007.



COMPREHENSIVE INCOME

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI. There were no such components to be recognized in comprehensive income for the year ending December 31, 2007.

This accounting policy change was a result of the new CICA accounting standards 1530 and 3251 and was adopted on a retrospective basis on January 1, 2007, with no restatement of prior period financial statements.

FINANCIAL INSTRUMENTS

In accordance with the new CICA accounting standards 3855 and 3861, all financial instruments, including embedded derivatives, must initially be recognized at fair value on the balance sheet and classified into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in OCI and are transferred to earnings when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Any transaction costs with respect to financial instruments are expensed in the period incurred. This accounting policy change was adopted on a retrospective basis on January 1, 2007, with no restatement of prior period financial statements.

The Company's financial instruments are listed as follows, according to their classification:

- i) Cash is classified as held for trading and is measured at fair value. Gains and losses as a result of subsequent revaluations are recorded in net earnings.
- ii) Accounts receivable and notes receivable are classified as loans and receivables and are initially measured at fair value, with subsequent revaluations recognized at amortized cost using the effective interest rate method.
- iii) Bank indebtedness, operating loans, accounts payable and accrued liabilities, and long-term debt are classified as other liabilities and are initially measured at fair value, with subsequent revaluations recognized at amortized cost using the effective interest rate method.

The fair values of the Company's financial instruments were determined as follows:

- i) The carrying amounts of cash, accounts receivable, bank indebtedness, operating loans and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments.
- ii) The fair values of the Company's notes receivable and long-term debt are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risks and maturities. The fair values of these financial instruments are not materially different from their carrying amounts.

At January 1, 2007, and for the year ended December 31, 2007, the Company had no embedded derivatives requiring separate recognition.

ACCOUNTING CHANGES

The new recommendations of CICA accounting standard 1506 permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period of cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

On April 1, 2007, the Company changed its revenue recognition policy with respect to cost recoveries billed to customers. Previously, one of the Company's subsidiaries had netted such revenue against the related cost. In order to be consistent among all subsidiaries, the Company applied the recommendations of CICA Emerging Issues Committee Abstract 123, Reporting Revenue Gross as a Principal Versus Net as an Agent ("EIC 123"). Under EIC 123, all of the Company's cost recoverable amounts are now recorded as revenue and operating expenses rather than being netted. As a result, revenue and operating expenses for the year ended December 31, 2007 include an increase of \$3.2 million to account for expenditures recovered during the three months ended March 31, 2007. There was no effect on earnings as a result of this change. The change was applied retroactively and revenue and operating expenses for the year ended December 31, 2006 have increased by \$3.5 million as a result of the new policy.

RECENT ACCOUNTING PRONOUNCEMENTS

The following GAAP changes will be adopted by the Company on January 1, 2008, unless otherwise specified:

- i) CICA accounting standard 3862 "Financial Instruments Disclosures" and 3863 "Financial Instruments Presentations" will require incremental disclosures regarding the significance of financial instruments and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.
- ii) CICA accounting standard 1535 "Capital Disclosures" will require disclosure about the Company's capital and the objectives, policies and processes for managing its capital.
- iii) CICA accounting standard 3031 "Inventories" harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards and establishes guidance for determining cost, recognition as an expense and possible write-downs.
- iv) CICA accounting standard 3064 "Goodwill and Intangibles" which replaces 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is in the process of assessing the impact of this standard which will be adopted January 1, 2009; however, the Company does not expect that the new Section will have a material impact.



DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the period in which the annual filings of the Company are being prepared. An evaluation of the design and operating effectiveness of the disclosure controls and procedures was performed as at December 31, 2007. The CEO and CFO have concluded, as at the date of this MD&A, that the Company's disclosure controls and procedures were effective as at December 31, 2007 and in respect of the 2007 year-end reporting period.

The CEO and CFO do not expect that the disclosure controls and procedures will prevent or detect all errors, misstatements and fraud but are designed to provide reasonable assurance of achieving their objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

In addition to disclosure controls and procedures, the CEO and CFO are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO have concluded that the Company's internal controls over financial reporting, as of the end of the period covered by the annual filings, are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in internal control over financial reporting that occurred during the year that have materially affected or are likely to materially affect internal control over financial reporting.

The Company's internal controls over financial reporting may not prevent or detect all errors, misstatements and fraud. The design of internal controls must take into account cost-benefit constraints. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

OUTLOOK

The CAODC expects 13,735 well completions for 2008, down 5,409 wells or 28% from 2007. The CAODC is also projecting an average drilling utilization rate of 34%, down from a 2007 utilization rate of 37%, due to the weakening of prices, the continued construction of additional rigs and the recent royalty adjustments announced by the Province of Alberta. Despite these projections, Savanna expects to maintain higher than average utilization rates and market share in both its drilling and well servicing divisions.

Although the industry is uncertain with respect to the demand and prices of oil and gas for 2008, Savanna is well positioned with its high quality equipment, leading-edge technology and strong balance sheet, and is confident that it will be able to achieve more than its market share. While Savanna is certainly not immune to pricing or utilization pressures caused by the industry slow-down, the Company does believe it is extremely well positioned to manage and capitalize on the challenging conditions facing the oilfield services industry.

Cautionary Statement Regarding Forward-Looking Information and Statements

Certain statements contained in this MD&A, including statements related to the Company's outlook and anticipated events, anticipated utilization rates and market share, strengthening of Aboriginal relationships, expansion of its operations, capital expenditures and statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "likely", "estimate", "predict", "potential", "continue", "maintain", "retain", "grow", and similar expressions and statements relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995.

These statements are based on certain factors, assumptions and analysis made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. In particular, the Company's expectation of lower industry activity in 2008 is premised on weakened natural gas prices, the import of liquefied natural gas, the strength of the Canadian dollar and the impact of the new government regulations regarding oil and gas royalties. These factors may negatively influence the cash flow of the Company's customers which may translate into reduced drilling activity coupled with pricing pressure for its services. However, whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risk and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to: fluctuations in the price and demand for oil and natural gas; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for well servicing and contract drilling; the effects of weather conditions on operations and facilities; the existence of competitive operating risks inherent in well servicing and contract drilling; general economic, market or business conditions; changes in laws or regulations, including taxation, environmental and currency regulations; the lack of availability of qualified personnel or management; the other risk factors set forth under the heading "Risks and Uncertainties" in this MD&A and other unforeseen conditions which could impact on the use of services supplied by The Company.

Consequently, all of the forward-looking information and statements made in this MD&A are qualified by this cautionary statement and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. Except as may be required by law, the Company assumes no obligation to update publicly any such forward-looking information and statements, whether as a result of new information, future events, or otherwise.

Notes:

- (1) Revenues and operating expenses have both been affected by a change in accounting policy with respect to revenue recognition and cost recoveries billed to customers. As a result, revenue and operating expenses for the 12 months ended December 31, 2007 include an increase of \$3.2 million to account for expenditures recovered during the three months ended March 31, 2007 that were netted against operating expenses in previously reported amounts. There was no effect on operating margin as a result of this change. The change was applied retroactively, resulting in an increase in revenue and operating expenses of \$3.5 million for the year ending December 31, 2006.
- (2) Operating margin, operating cash flows from continuing operations before changes in non-cash working capital, working capital and EBITDA are not recognized measures under Canadian generally accepted accounting principles (GAAP), and are unlikely to be comparable to similar measures presented by other companies. Management believes that, in addition to net earnings, the measures described above are useful as they provide an indication of the results generated by the Company's principal business activities prior to consideration of how those activities are financed and how the results are taxed in various jurisdictions.
 - Operating margin is defined as revenue less operating expenses.
 - Operating cash flows from continuing operations before changes in working capital is defined as cash flows from continuing operating activities before changes in non-cash working capital.
 - Working capital is defined as total current assets less total current liabilities excluding the current portions of long-term debt and deferred drilling advances.
 - EBITDA is defined as earnings from continuing operations before income taxes, depreciation, and interest.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of Savanna. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, transactions are properly authorized and assets are safeguarded from loss or unauthorized use.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte & Touche LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.



Ken Mullen

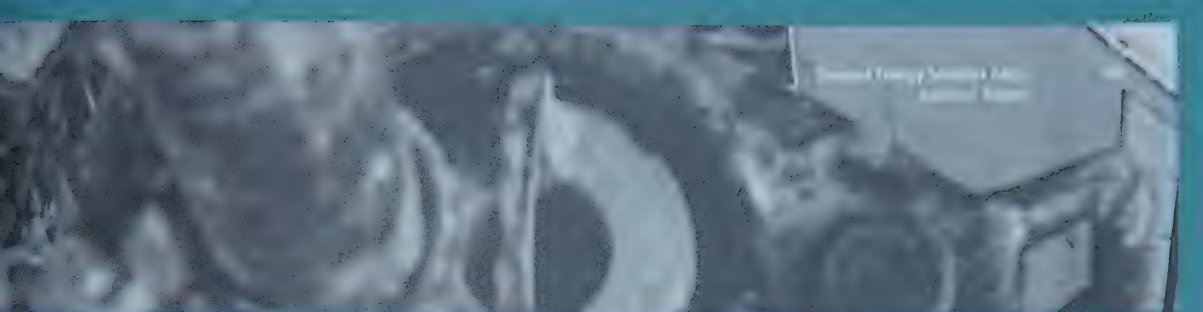
President and Chief Executive Officer
Calgary, Alberta



Darcy Draudson

Chief Financial Officer
Calgary, Alberta

March 11, 2008



AUDITORS' REPORT

To the Shareholders of Savanna Energy Services Corp.:

We have audited the consolidated balance sheets of Savanna Energy Services Corp. (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

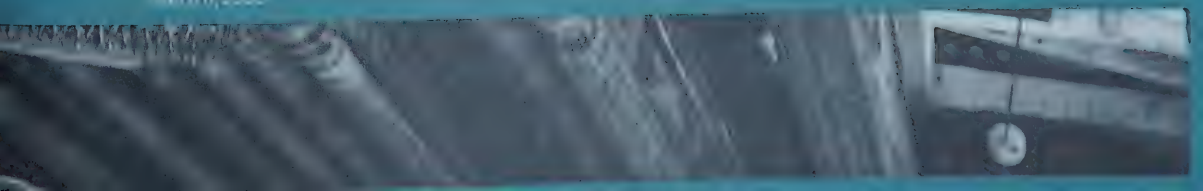
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

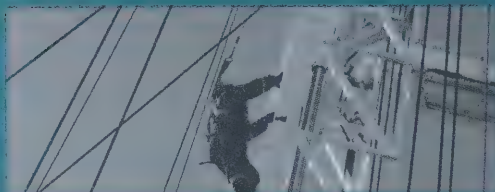
Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta

March 11, 2008



Consolidated Financial Statements





CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME

Years Ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)	2007 \$	2006 \$
Revenue		
Sales and services	373,452	247,082
Expenses		
Operating	232,937	148,687
General and administrative	16,442	11,141
Stock-based compensation (Note 14(f))	6,137	4,233
Depreciation and amortization	33,868	17,486
Interest on long-term debt	3,969	5,197
Foreign exchange loss and other expenses	2,146	48
Impairment loss on goodwill and intangible assets (Note 8)	151,400	-
	446,899	186,792
Earnings (loss) from continuing operations before income taxes	(73,447)	60,290
Income taxes (Note 15(a))		
Current	5,746	6,064
Future	5,126	12,942
	10,872	19,006
Net earnings (loss) from continuing operations before non-controlling interest	(84,319)	41,284
Non-controlling interest (Note 13)	(652)	326
Net earnings (loss) from continuing operations	(84,971)	41,610
Net earnings from discontinued operations,	140,755	12,988
net of tax of \$33,161 (2006 - \$5,059) (Notes 15(a) and 22)		
Net earnings and comprehensive income	55,784	54,598
Net earnings per share (Note 14(g))		
Basic - net earnings (loss) from continuing operations	(1.44)	1.06
Diluted - net earnings (loss) from continuing operations	(1.44)	1.05
Basic - net earnings from discontinued operations	2.38	0.33
Diluted - net earnings from discontinued operations	2.38	0.32
Basic - net earnings	0.94	1.39
Diluted - net earnings	0.94	1.37
CONSOLIDATED STATEMENT OF RETAINED EARNINGS		
(Stated in thousands)	2007 \$	2006 \$
Retained earnings, beginning of year	114,765	60,167
Dividends	(2,974)	-
Net earnings	55,784	54,598
Retained earnings, end of year	167,575	114,765

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(Stated in thousands of dollars)	2007 \$	2006 \$
ASSETS		
Current		
Cash	3,094	8,259
Accounts receivable	95,386	88,856
Inventory (Note 5)	8,529	4,783
Prepaid expenses and deposits	1,032	1,525
Current portion of notes receivable (Note 6)	–	2,250
Current assets held for sale (Note 22)	–	18,720
	108,041	124,393
Notes receivable (Note 6)	6,000	6,575
Property and equipment (Note 7)	746,063	590,132
Goodwill (Note 8)	309,625	424,003
Intangibles and other assets (Note 8)	10,363	27,097
Non-current assets held for sale (Note 22)	–	33,739
	1,180,092	1,205,939
LIABILITIES		
Current		
Bank indebtedness	10,713	25,260
Operating loans (Note 9)	313	337
Accounts payable and accrued liabilities	44,465	50,970
Dividends payable	1,488	–
Income taxes payable	25,091	5,599
Current portion of deferred drilling advance (Note 10)	–	1,127
Current portion of long-term debt (Note 12)	15,168	18,771
Current liabilities held for sale (Note 22)	–	5,937
	97,238	108,001
Deferred drilling advance (Note 10)	–	3,333
Deferred net revenue (Note 6)	1,647	1,647
Long-term debt (Note 12)	43,050	136,281
Future income taxes (Note 15 (c))	62,180	55,995
Non-current liabilities held for sale (Note 22)	–	5,374
	204,115	310,631
Non-controlling interest (Note 13)	–	3,214
Commitments and contingencies (Notes 11 and 20)	–	–
SHAREHOLDERS' EQUITY		
Share capital (Note 14(b))	797,156	771,495
Contributed surplus (Note 14(c))	11,246	5,834
Retained earnings	167,575	114,765
Accumulated other comprehensive income	–	–
	975,977	892,094
	1,180,092	1,205,939

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended December 31, 2007 and 2006

(Stated in thousands of dollars)	2007 \$	2006 \$
Cash flows from operating activities		
Net earnings (loss) from continuing operations	(84,971)	41,610
Items not affecting cash:		
Stock-based compensation (Note 14(f))	6,137	4,233
Depreciation and amortization	33,868	17,788
Impairment loss on goodwill and intangible assets (Note 8)	151,400	-
Future income taxes (Note 15(a))	5,126	12,942
Non-controlling interest (Note 13)	652	(326)
Settlement of deferred drilling advances (Note 10)	(2,197)	-
Amortization of other assets (Note 8)	477	73
Loss on disposal of assets	996	28
	111,488	76,348
Change in non-cash working capital from continuing operations (Note 16(b))	(24,158)	4,607
Cash flows from continuing operations	87,330	80,955
Net earnings from discontinued operations	140,755	12,988
Items not affecting cash:		
Depreciation	42	4,407
Future income taxes (Note 15(a))	588	50
Stock-based compensation (Note 22)	665	572
Gain on disposal of assets	(140,425)	(130)
	1,625	17,887
Change in non-cash working capital from discontinued operations (Note 16(b))	4,630	(477)
Cash flows from discontinued operations	6,255	17,410
Total cash flows from operating activities	93,585	98,365
Cash flows from financing activities		
Shares issued on exercise of stock options (Note 14(b))	2,947	4,896
Cash distribution in subsidiary	-	(68)
Deferred financing costs incurred	-	(75)
Advances on operating loans, net of repayments	-	337
Repayments on operating loans	(24)	(16,100)
Repayment of deferred drilling advance (Note 10)	(2,264)	-
Issuance of long-term debt	42,250	123,000
Repayment of long-term debt	(142,778)	(73,709)
Dividends paid	(2,974)	-
Change in working capital related to financing activities (Note 16(b))	1,488	-
Cash flows from continuing financing activities	(101,355)	38,281
Repayment of long-term debt	-	(1,372)
Cash paid on acquisition and cancellation of options (Note 14 (c))	(520)	-
Cash flows from discontinued financing activities	(520)	(1,372)
Total cash flows from financing activities	(101,875)	36,909
Cash flows from investing activities		
Purchase of property and equipment	(128,212)	(128,145)
Proceeds on disposal of assets	1,285	206
Cash paid on acquisitions, net of cash acquired (Note 4)	(55,737)	(2,240)
Change in working capital related to investing activities (Note 16(b))	(5,347)	(5,862)
Purchase of other assets	(3,185)	(314)
Cash flows from continuing investing activities	(191,196)	(136,355)
Purchase of property and equipment	(149)	(5,800)
Proceeds on disposal of assets	-	603
Cash received on sale of discontinued operations, net of costs (Note 22)	209,017	-
Change in cash held for disposal	-	(3,609)
Cash flows from discontinued investing activities	208,868	(8,806)
Total cash flows from investing activities	17,672	(145,161)
Increase (decrease) in cash, net of bank indebtedness	9,382	(9,887)
Cash, net of bank indebtedness, beginning of year	(17,001)	(7,114)
Cash, net of bank indebtedness, end of year	(7,619)	(17,001)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

1 DESCRIPTION OF BUSINESS

Savanna Energy Services Corp. (the "Company" or "Savanna") was incorporated under the Alberta Business Corporations Act on March 22, 2001, to provide a variety of services in the oil and natural gas industry. Savanna primarily operates through the following operating companies, all of which are 100% owned subsidiaries of Savanna: Great Plains Well Servicing Corp. ("Great Plains"), Trailblazer Drilling Corp. ("Trailblazer") and Western Lakota Energy Services Inc. ("Western Lakota"). The Company's well servicing division is operated through Great Plains and Accell Well Services ("Accell") (a division of Great Plains), and its drilling division is operated through Trailblazer and Western Lakota. Western Lakota operates through a number of wholly-owned subsidiaries and 50/50 limited partnerships.

2 BASIS OF PRESENTATION

The consolidated financial statements of Savanna have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated.

The results of operations and cash flows for the year ending December 31, 2007 include the results of Accell, Bear Steam Ltd. ("Bear Steam"), Akuna Drilling Trust ("Akuna") and Command Coil Services Limited Partnership ("Command") from their dates of acquisition (Note 4). Financial results and information for 2006 shown for comparative purposes are based on Savanna's historical information which does not include Western Lakota prior to the date of acquisition, August 25, 2006.

Earnings for Ultraline Services Corporation ("Ultraline") for the one month ending January 31, 2007, have been included in net earnings from discontinued operations in the consolidated statement of earnings (Note 22). For comparative purposes, net earnings for the year ending December 31, 2006 reflect the discontinuation of this division and the assets and liabilities relating to Ultraline at December 31, 2006 have been shown as assets and liabilities held for sale.

Certain figures for the prior year have been reclassified to conform to the current presentation.

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a | PARTNERSHIPS

The Company conducts a portion of its operations in the contract drilling and well servicing divisions through limited partnerships. The Company accounts for its interests in these partnerships on a proportionate consolidation basis as these partnerships are jointly-controlled entities.

In certain circumstances, the Company will build and sell interests in drilling or well servicing rigs and related equipment to these partnerships. Such sales may be transacted directly with the partnership or with the other partners. The Company eliminates its proportionate share of transactions with the limited partnerships.

b | REVENUE RECOGNITION

Revenue from contract drilling, well servicing and other oilfield services is recognized upon delivery of service to customers and is calculated on a daily or hourly basis. The customer contract terms do not include a provision for post-delivery obligations.

Included in revenues are the proceeds from the sales of the interests in drilling or well servicing rigs and related equipment sold to partners. Net profits related to amounts that remain receivable from the partners or partnerships are deferred and recognized once collection is reasonably assured. All other sales of rigs are recognized upon completion of the transaction and transfer of beneficial ownership to the acquirer. Any income earned from rigs held for sale in inventory is credited to the cost of the related rig held in inventory.

c | CASH AND BANK INDEBTEDNESS

Cash consists of cash held in banks. Bank indebtedness consists of temporary overdrafts and cheques written in excess of funds. Classification as cash or bank indebtedness depends on the financial institution in which the consolidated balance is held, except for balances held through jointly-controlled partnerships. Balances held through jointly-controlled partnerships are examined and classified on an individual basis rather than as a consolidated group.

d | INVENTORY

The Company's inventory includes drilling or well servicing rigs constructed and under construction and related equipment for sale to third parties or jointly-controlled partnerships. The portion included in inventory is based on management's expectations of the percentage the Company will sell to a third party or jointly-controlled partnership. Inventory is valued at the lower of cost (less any income earned prior to sale) and estimated net realizable value.

Inventory also includes parts and operating supplies valued at the lower of cost, determined on a weighted average basis, and net realizable value.

e | PROPERTY, EQUIPMENT AND DEPRECIATION

Capital assets are recorded at cost. Depreciation is determined using the straight-line method beginning in the month of acquisition, except for drilling rigs and related equipment which are depreciated based on the number of drilling days.

Buildings	20 years straight-line
Field equipment - non-drilling	10 to 15 years straight-line with salvage values of 10% to 20%
Drilling rigs and equipment	1,500 to 4,125 drilling days with a salvage value of 20%
Furniture and office equipment	3 to 5 years straight-line
Vehicles under capital leases	3 to 5 years straight-line

Costs related to equipment under construction are capitalized when incurred. No depreciation is provided on assets under construction, until those assets are substantially complete and ready for use.

f | GOODWILL

Goodwill is recorded at cost and is not amortized. The recorded amount of goodwill is tested for impairment, based on expected future cash flows of the reporting segment to which the goodwill is attributable, at least annually at year-end or whenever events or circumstances indicate a possible impairment, to ensure that the fair value is greater than, or equal to, book value. Any impairment is charged to income in the period in which it is determined.

g | INTANGIBLE ASSETS

Intangible assets consist of costs associated with securing Savanna's intellectual property rights as well as the value attributed to Aboriginal relationships, customer relationships, non-competition agreements, and tradenames arising on acquisitions completed by the Company (Note 4). Intangible assets are amortized on a straight-line basis over the expected period of benefit.

Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired.

h | OTHER ASSETS

Other assets include rig re-certification costs which are being amortized on a straight-line basis over their expected useful lives (three to four years). Amortization expense related to re-certification costs is included in operating expenses in the consolidated financial statements (Note 8).

i | IMPAIRMENT OF LONG-LIVED ASSETS

On a periodic basis, or at least annually, management assesses the carrying amount of long-lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company will test for impairment by comparing the carrying amount of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value. The Company uses undiscounted future cash flows to determine the net recoverable amount and measures the amount of impairment using discounted cash flows.

j | ASSET RETIREMENT OBLIGATIONS

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs before salvage values are capitalized as part of the carrying amount of the related capital asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

As at December 31, 2007 and 2006, the estimated fair value of the asset retirement obligation for the Company's capital assets is nominal. Accordingly, no provision has been made for any asset retirement obligation.

k | FUTURE INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences, which are the differences between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis. The Company's future tax balances have been reflected at the substantively enacted tax rates which are expected to apply when the temporary differences between the accounting and tax balances of the Company's assets and liabilities are reversed.

l | EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding. Diluted earnings per share are calculated using the treasury stock method where the deemed proceeds of the exercise of options is considered to be used to reacquire shares at an average share price.

m | STOCK-BASED COMPENSATION

The Company follows the fair value method of accounting, using the Black-Scholes option pricing model, for options granted subsequent to January 1, 2002, whereby, compensation expense is recognized for the stock options on the date of granting, and amortized over the options' vesting period.

All forfeited options are cancelled by the Company immediately and no stock-based compensation is recorded on these options in future periods.

Stock compensation expense also includes the value of deferred share units ("DSU's) held by directors and officers of the Company and outstanding at the end of the year. DSU's are recognized when vested and valued on a mark-to-market basis. DSU's will be settled in cash on the date a director ceases to be a director of the Company or within 120 days of termination of an officer.

The recognition and valuation of DSU's results in stock compensation expense and a corresponding liability which has been included in accounts payable and accrued liabilities in the consolidated balance sheet.

n | USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the depreciation period for capital assets; the recoverability of capital assets, intangibles and goodwill; the provision of doubtful accounts receivable; stock-based compensation expense; and estimates in future income taxes. Actual results could differ significantly from these estimates.

o | FOREIGN CURRENCY TRANSLATION

The Company's integrated foreign operations give rise to assets, liabilities, revenues and expenses denominated in a foreign currency. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets, liabilities, revenues and expenses are translated at rates prevailing when they were acquired or incurred. Exchange gains and losses arising on the translation of assets and liabilities denominated in foreign currencies are included in net earnings.

p | DERIVATIVE INSTRUMENTS

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices. Embedded derivatives are derivatives embedded in a host contract or other financial instrument. They are recorded separately from the host contract or financial instrument when their economic characteristics and risks are not clearly and closely related to those of the host contract or financial instrument. The terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not measured at fair value.

On January 1, 2007, the Company adopted the new CICA accounting standards 3865 ("Hedges") and 3855 ("Financial Instruments - Recognition and Measurement"). These standards were adopted on a retrospective basis with no restatement of prior period financial statements. The Company has not designated any hedging relationships or embedded derivatives requiring separate recognition as at January 1, 2007 or for the year ended December 31, 2007.

q | COMPREHENSIVE INCOME

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI. There were no such components to be recognized in comprehensive income for the year ending December 31, 2007.

This accounting policy change was a result of the new CICA accounting standards 1530 and 3251 and was adopted on a retrospective basis on January 1, 2007, with no restatement of prior period financial statements.

r | FINANCIAL INSTRUMENTS

In accordance with the new CICA accounting standards 3855 and 3861, all financial instruments, including embedded derivatives, must initially be recognized at fair value on the balance sheet and classified into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in OCI and are transferred to earnings when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Any transaction costs with respect to financial instruments are expensed in the period incurred. This accounting policy change was adopted on a retrospective basis on January 1, 2007, with no restatement of prior period financial statements.

The Company's financial instruments are listed as follows, according to their classification:

- i) Cash is classified as held for trading and is measured at fair value. Gains and losses as a result of subsequent revaluations are recorded in net earnings.
- ii) Accounts receivable and notes receivable are classified as loans and receivables and are initially measured at fair value with subsequent revaluations recognized at amortized cost using the effective interest rate method.

- iii) Bank indebtedness, operating loans, accounts payable and accrued liabilities, and long-term debt are classified as other liabilities and are initially measured at fair value with subsequent revaluations recognized at amortized cost using the effective interest rate method.

s | ACCOUNTING CHANGES

The new recommendations of CICA accounting standard 1506 permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

On April 1, 2007, the Company changed its revenue recognition policy with respect to cost recoveries billed to customers. Previously, one of the Company's subsidiaries had netted such revenue against the related cost. In order to be consistent among all subsidiaries, the Company applied the recommendations of CICA Emerging Issues Committee Abstract 123, Reporting Revenue Gross as a Principal Versus Net as an Agent ("EIC 123"). Under EIC 123, all of the Company's cost recoverable amounts are now recorded as revenue and operating expenses rather than being netted. As a result, revenue and operating expenses for the year ended December 31, 2007 include an increase of \$3,202 to account for expenditures recovered during the three months ended March 31, 2007. There was no effect on earnings as a result of this change. The change was applied retroactively and revenue and operating expenses for the year ended December 31, 2006 have increased by \$3,496 as a result of the new policy.

This accounting standard also requires disclosure of GAAP changes that have been issued but are not yet effective. The following GAAP changes will be adopted by the Company on January 1, 2008, unless otherwise specified:

- i) CICA accounting standard 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentations" will require incremental disclosures regarding the significance of financial instruments and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.
- ii) CICA accounting standard 1535 "Capital Disclosures" will require disclosure about the Company's capital and the objectives, policies and processes for managing its capital.
- iii) CICA accounting standard 3031 "Inventories" harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards and establishes guidance for determining cost, recognition as an expense and possible write-downs.

iv) CICA accounting standard 3064 "Goodwill and Intangibles" which replaces 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is in the process of assessing the impact of this standard which will be adopted January 1, 2009; however, the Company does not expect that the new Section will have a material impact.

4 BUSINESS ACQUISITIONS

- a) On February 16, 2007, Savanna purchased the assets of Accell Well Services Ltd. for total consideration of \$61,894. Total consideration was comprised of \$46,300 of cash and 839 common shares of Savanna priced at \$18.47 per share, net of acquisition costs of \$94.
- b) On February 16, 2007, Savanna completed the acquisition of all the outstanding shares of Bear Steam Ltd. for total consideration of \$6,000. The acquisition was funded with \$4,500 of cash and 81 common shares of Savanna priced at \$18.47 per share.
- c) On June 1, 2007, Savanna completed the acquisition of the 14% minority interest of one of its subsidiaries, Akuna Drilling Trust, held by First Nations and Métis Nation communities and associations. As a result of the transaction, Savanna now owns 100% of Akuna. The acquisition was funded with \$2,984 of cash and 255 common shares of Savanna priced at \$21.81 per share, for total consideration of \$8,549.
- d) On July 26, 2007, Savanna acquired 50% of Command Coil Services Limited Partnership held by a First Nation's partner which included 5 coiled tubing service units for a net purchase price of \$2,000 in cash. As a result of the transaction, Savanna now owns 100% of the 8 units operating in this fleet.
- e) On December 21, 2007, the Company acquired a 50% interest in 4 service rigs and related assets for a net purchase price of \$1,100 in cash. These rigs are held in a limited partnership that is owned 50% each by the Company and a First Nations community.
- f) On August 25, 2006, Savanna completed the acquisition of all the outstanding shares of Western Lakota for total consideration of \$667,903. The acquisition was priced at \$15.03 per share of Western Lakota to be settled with 0.64 of a common share of Savanna for each common share of Western Lakota held. Upon completion of the merger, Savanna shareholders owned 51.5% and Western Lakota shareholders owned 48.5% of the combined company. The acquisition was funded with 27,861 common shares of Savanna at \$23.49 per share net of share issue costs of \$5,700 (\$3,933 net of tax) plus \$12,371

for the fair value of options exchanged. Total consideration also includes \$507 for debt restructuring fees and \$575 relating to the settlement of employee contracts. Of the \$6,782 total share issue costs, debt restructuring fees and settlement of employee contracts, \$545 had been paid in cash at the acquisition date and \$6,237 was payable subsequent to closing.

- g) On September 29, 2006, the Company acquired a 50% interest in 3 drilling rigs and related assets for cash consideration of \$10,250. These rigs were previously held in a limited partnership that was owned 50% each by Western Lakota and a First Nations community.

All acquisitions have been accounted for using the purchase method with the results of operations being included in the consolidated financial statements from the date of acquisition. Savanna shares issued on all the acquisitions were valued at the average closing price of Savanna shares for the five-day period before the closing date of the acquisitions.

The purchase price allocations are as follows:

	2007					
	(a) \$	(b) \$	(c) \$	(d) \$	(e) \$	Total \$
Net assets acquired:						
Cash	-	160	-	81	-	241
Non-cash working capital	-	(160)	(3,717)	(1,092)	-	(4,969)
Settlement of note receivable	-	-	-	(575)	-	(575)
Property and equipment	51,020	2,865	7,701	3,478	2,910	67,974
Intangibles *	4,821	1,558	-	-	-	6,379
Goodwill *	6,053	2,067	4,682	1,398	-	14,200
Long-term debt	-	-	(117)	(1,290)	(1,810)	(3,217)
Future income taxes	-	(490)	-	-	-	(490)
	61,894	6,000	8,549	2,000	1,100	79,543
Consideration:						
Common shares issued	15,500	1,500	5,565	-	-	22,565
Cash	46,394	4,500	2,984	2,000	100	55,978
Payable subsequent to closing	-	-	-	-	1,000	1,000
Total consideration	61,894	6,000	8,549	2,000	1,100	79,543
* Intangibles and goodwill deductible for tax	8,155	-	-	-	-	8,155

			2006
	(f) \$	(g) \$	Total \$
Net assets acquired:			
Cash	3,968	-	3,968
Non-cash working capital	(23,868)	-	(23,868)
Notes receivable	1,778	-	1,778
Property and equipment	289,919	10,250	300,169
Intangibles *	27,290	-	27,290
Goodwill *	421,326	-	421,326
Long-term debt	(25,913)	-	(25,913)
Future income taxes	(22,989)	-	(22,989)
Non-controlling interest	(3,608)	-	(3,608)
	667,903	10,250	678,153
Consideration:			
Common shares issued	648,750	-	648,750
Fair value of options	12,371	-	12,371
Cash	545	10,250	10,795
Payable subsequent to closing	6,237	-	6,237
Total consideration	667,903	10,250	678,153
* Intangibles and goodwill deductible for tax	-	-	-

5 INVENTORY

	2007 \$	2006 \$
Drilling rigs and equipment built for sale, at cost	1,505	1,344
Parts and operating supplies	7,024	3,439
	8,529	4,783

6 NOTES RECEIVABLE AND DEFERRED NET REVENUE

	Interest Rate	2007		2006	
		Notes Receivable \$	Deferred Net Revenue \$	Notes Receivable \$	Deferred Net Revenue \$
Note receivable (Note 4(d))	P + 1%	–	–	575	–
Note receivable	P + 10%	3,000	828	3,000	828
Note receivable	P + 10%	3,000	819	3,000	819
Note receivable	P + 1%	–	–	2,250	–
		6,000	1,647	8,825	1,647
Current portion		–	–	(2,250)	–
		6,000	1,647	6,575	1,647

"P" denotes prime rate, which was 6% at December 31, 2007 and 2006.

All of the notes receivable arose from the sale of the interests in drilling rigs and related equipment to partners or jointly-controlled partnerships. Net profits related to amounts that remain receivable are deferred and recognized once reasonable certainty regarding the collection of the related receivable exists. These notes must be paid in full before the partnerships make any cash distribution to the partners.

7 PROPERTY AND EQUIPMENT

	2007			2006		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	8,036	–	8,036	1,612	–	1,612
Buildings	13,779	980	12,799	6,723	502	6,221
Field equipment	758,558	79,369	679,189	545,659	50,854	494,805
Equipment under construction	28,527	–	28,527	72,071	–	72,071
Furniture and office equipment	2,998	1,538	1,460	2,187	937	1,250
Equipment under capital leases	20,528	4,476	16,052	17,744	3,571	14,173
	832,426	86,363	746,063	645,996	55,864	590,132

8 GOODWILL, INTANGIBLES AND OTHER ASSETS

	2007			2006		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Goodwill	309,625	–	309,625	424,003	–	424,003
Intangible assets (Note 3(g))	33,770	26,356	7,414	27,391	535	26,856
Other assets (Note 3(h))	3,499	550	2,949	314	73	241
	346,894	26,906	319,988	451,708	608	451,100

At December 31, 2007, impairment tests were performed on goodwill using discounted future cash flows and on intangibles using primarily multiple period excess earnings analyses. These tests indicated that the carrying amounts of certain of these assets exceeded their fair value. The conditions which led to the impairment of goodwill and intangibles were impacted by external factors such as depressed natural gas pricing, new government regulations regarding oil and gas royalties announced in the fourth quarter of 2007, and currency exchange rates which negatively impacted industry activity levels and utilization rates. As a result, a loss of \$128,578 (2006 - nil) relating to goodwill impairment and a loss of \$22,822 (2006 - nil) relating to intangible asset impairment has been included in the consolidated statement of earnings and comprehensive income. The carrying amount of goodwill was reduced to \$309,625 and the carrying amount of intangibles was reduced to \$7,414.

During the year ended December 31, 2007, amortization expense of \$3,000 (2006 - \$535) relating to intangible assets has been included in depreciation and amortization expense. Amortization expense of \$477 (2006 - 73) relating to other assets has been included in operating expenses in the consolidated financial statements for the year ending December 31, 2007.

9 OPERATING LOANS

	Interest Rate	2007		2006
		Authorized \$	Outstanding \$	Outstanding \$
Limited partnership operating loans	P + 0.75% to 1.0%	1,500	313	337

"P" denotes prime rate, which was 6% at December 31, 2007 and 2006.

These operating loans are in limited partnerships owned 50% by the Company. The amounts presented are the Company's proportionate share. The Company has not guaranteed any of the loans in the limited partnerships. These operating loans are supported by either a general security agreement covering all assets of each limited partnership, or the accounts receivable of each limited partnership.

10 DEFERRED DRILLING ADVANCE

During 2007, the Company settled the outstanding balance of its deferred drilling advance for \$2,264, and the remaining \$2,197 has been included in revenue in the consolidated financial statements for the year ending December 31, 2007. The advance was received from a customer and used towards the construction of 5 drilling rigs that are owned by the Company. These 5 rigs were to drill for this customer under three-year term contracts. By settling the outstanding balance, these contracts have been considered cancelled.

11 COMMITMENTS

Commitments relating to office and shop premises are recorded as rent expenses in the period the monthly amount relates to and are included in operating and general and administrative expenses in the consolidated statement of earnings at that time.

Commitments relating to operating vehicle and equipment leases are recorded as equipment rental expense in the period the amount relates to and are included in operating expenses and general and administrative expenses in the consolidated statement of earnings at that time.

Commitments relating to equipment purchases are recorded as capital asset additions at the time of payment.

Payments required in each of the next five years are as follows:

	\$
December 31, 2008	5,213
2009	2,646
2010	1,800
2011	1,644
2012	1,112
	12,415

Rent expense included in the statement of earnings is as follows:

	General and Administrative \$	Operating \$	Total \$
2007	964	561	1,525
2006	554	166	720

12 LONG-TERM DEBT

	Monthly Principal Payments \$	Interest Rate	Effective Rate	Maturity Date	Authorized \$	2007 Outstanding \$	2006 Outstanding \$
Savanna							
Term loans	-	-	-	Mar/07	-	-	240
Term revolving credit facility (a)	-	(a)	7.92%	(a)	250,000	35,000	125,000
Term non-revolving loans (b)	536	6.0 to 6.56%	6.31%	May/09-Oct/09	9,392	9,392	15,534
Mortgage (c)	-	-	-	(c)	-	-	955
Obligations under capital lease (d)	236	4.7 to 6.85%	6.34%	Feb/08-Jun/11	5,261	5,261	4,533
					264,653	49,653	146,262
Limited partnership facilities (e)							
Term loans	90	4.7 to 7.25%	7.17%	Jul/08-Feb/12	4,242	4,242	2,980
Term non-revolving loans	60	P+1.0%	6.95%	Aug/09	1,138	1,138	1,857
Obligations under capital lease (d)	148	4.0 to 8.64%	5.73%	Nov/08-Feb/11	3,185	3,185	3,953
					8,565	8,565	8,790
Total long-term debt					273,218	58,218	155,052
Less: current portion						15,168	18,771
						43,050	136,281

"P" denotes prime rate, which was 6% at December 31, 2007 and 2006.

There were no material transaction costs incurred or expensed for the year ended December 31, 2007.

- a) The entire facility, which is with a syndicate of banks, is renewed every 365 days at the bank's discretion; however, if it is not renewed on the annual renewal date (September 26th), the facility reverts to a three-year term loan with a four-year amortization, requiring quarterly payments. During the third quarter of 2007, the facility was renewed resulting in a new annual renewal date of September 26, 2008 and a maturity date of September 26, 2011.

Included in the \$250,000 facility is \$10,000 which is committed to the swing-line operating facility included in bank indebtedness in the consolidated financial statements. At December 31, 2007, \$8,240 (December 31, 2006 - \$10,075) was drawn on the swing-line operating facility.

Borrowings under the facility may be made by way of prime rate based advances, bankers' acceptances, letters of credit, U.S. based rate or LIBOR advances. The facility bears interest at the bank's prime rate to prime plus 0.75%, bankers' acceptance, letter of credit, or LIBOR rate plus a 0.75% to 2.25% stamping fee which is dependant on certain financial ratios of the Company. A commitment fee of 0.15% to 0.35% per annum is paid on the unused portion of the facility. The facility is secured by a general security

agreement over all the present and future property of the Company and its subsidiaries, and a priority agreement with a commercial lender giving the banks priority on all assets of the Company and all its subsidiaries.

The \$10,000 interest rate swap included in the term revolving credit facility at December 31, 2006 was unwound in January 2007 and a charge of \$34 has been included in interest on long-term debt for the year ending December 31, 2007.

- b) These loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of a subsidiary.
- c) The mortgage payable matured on September 30, 2007 at which time the Company decided not to renew and the amount owing was paid in full.
- d) The obligations under capital lease are secured by the related equipment.
- e) The limited partnership facilities are in limited partnerships owned 50% by the Company. The amounts presented are the Company's proportionate share. The Company has not guaranteed any of the loans in the limited partnerships. Within the individual limited liability partnerships, the loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the limited partnerships. During 2007, a limited partnership entered into a loan agreement for \$2,250 with a financial institution that has a common director of the Company.

Repayments required over the next five years are as follows:

	Long-term debt	Obligations under capital lease		Total
	Principal \$	Principal \$	Interest \$	\$
2008	10,655	4,513	436	15,604
2009	13,230	2,433	184	15,847
2010	9,603	1,090	74	10,767
2011	16,225	409	5	16,639
2012	60	-	-	60
	49,773	8,445	699	58,917

13 NON-CONTROLLING INTEREST

The non-controlling interest in the consolidated financial statements represents First Nations and Métis organizations' and communities' minority ownership (14%) of Akuna Drilling Trust's assets, liabilities, revenues and expenses prior to June 1, 2007 (Note 4(c)). Subsequent to June 1, 2007, Akuna Drilling Trust has been a wholly-owned subsidiary of the Company.

14 SHARE CAPITAL

a | AUTHORIZED

The Company has authorized an unlimited number of common shares, Class A common shares, and preferred shares.

b | ISSUED

	Shares	2007 \$	Shares	2006 \$
Common shares				
Balance, beginning of year	57,919	771,495	29,032	103,049
Issued for cash on exercise of stock options	441	2,947	1,026	4,896
Fair value of stock options exercised	-	149	-	662
Shares issued on acquisitions (Note 4)	1,175	22,565	27,861	666,821
Share issue costs	-	-	-	(3,933)
Balance, end of year	59,535	797,156	57,919	771,495

The Company has 5,052 (December 31, 2006 - 5,542) common shares reserved for issue upon exercise of stock options.

c | CONTRIBUTED SURPLUS

	2007 \$	2006 \$
Balance, beginning of year	5,834	2,070
Stock-based compensation – continuing operations	5,416	3,854
Stock-based compensation – discontinued operations (Note 22)	665	572
Fair value of options exercised (reclassified to share capital)	(149)	(662)
Repurchase and cancellation of options	(520)	-
Balance, end of year	11,246	5,834

During 2007, the Company paid \$520 in cash for the purchase and cancellation of Savanna options held by Ultraline employees (Note 22).

d | DEFERRED SHARE UNIT PLAN

In 2006, the Company implemented a deferred share unit ("DSU") plan for independent directors of the Company. The DSU's are granted annually and represent rights to share value based on the number of deferred share units issued. Under the terms of the plan, DSU's awarded will vest immediately and will be settled with cash in the amount equal to the closing price of the Company's common shares on the date the director ceases to be a director of the Company. During 2007, 27 units were granted to independent directors (2006 - 20).

During 2007, the Company implemented a DSU plan for officers and issued 27 units which vest equally over a three-year term on their anniversary date. Within 120 days of termination of an officer, the Company is required to pay a lump-sum payment to the officer equal to the number of vested DSU's multiplied by the closing price of the Company's common shares on the settlement date.

During 2007, \$721 has been recorded in stock compensation expense relating to DSU's (2006 - \$379) and four DSU's were settled in cash totalling \$76 to an outside director. There were 74 units (2006 - 20) outstanding and 51 units vested (2006 - 20) on December 31, 2007 with a corresponding liability of \$1,024 (2006 - \$379) included in accounts payable and accrued liabilities.

e | STOCK OPTION PLAN

The Company has a stock option plan for the purpose of developing the interest of directors, officers, employees and consultants of the Company and its subsidiaries in the growth and development of the Company by providing them with the opportunity, through stock options, to acquire an increased proprietary interest in the Company.

	2007		2006	
	Share Options	Weighted Average Exercise Price (per share) \$	Share Options	Weighted Average Exercise Price (per share) \$
Outstanding, beginning of year	1,946	17.41	1,659	11.67
Granted	950	18.88	332	24.91
Converted on acquisition	-	-	1,206	12.76
Exercised	(490)	6.48	(1,026)	4.77
Cancelled	(395)	21.61	(225)	18.88
Outstanding, end of year	2,011	19.73	1,946	17.41

Of the 395 options (2006 - 225 options) cancelled during the year, 23 options (2006 - nil) had expired and 372 options (2006 - 225 options) were forfeited.

At December 31, 2007, 2,011 (2006 - 1,946) options were outstanding at exercise prices between \$3.00 and \$28.12 per share. The options expire from March 6, 2008 to May 25, 2011 and vest in equal amounts on their anniversary over three to five years. At December 31, 2007, 745 (2006 - 715) options were exercisable at a weighted average exercise price of \$19.73 (2006 - \$11.47). The following table summarizes these details:

At December 31, 2007			
Exercise Price (per share)	Weighted Number of Options Outstanding	Average Contractual Life (years)	Number of Options Exercisable
\$3.00 - \$4.50	5	-	5
\$6.76 - \$10.00	65	-	65
\$10.01 - \$15.00	115	0.1	115
\$15.01 - \$22.50	1,281	1.8	321
\$22.51 - \$28.12	545	0.7	239
	2,011	2.6	745

Compensation expense for stock options is recognized using the fair value when the stock options are granted, and is amortized over the option's vesting period. For options granted during the year ended December 31, 2007, the Company used the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.0% (2006 - 5.25%), expected life of 3.5 years (2006 - 4.0 years), no annual dividends paid, and expected volatility of 35% (2006 - 33%). On August 10, 2007, the Board of Directors determined to commence quarterly dividend payments. No options have been granted since that date; therefore, no changes to the above assumptions were required for the year ended December 31, 2007.

Compensation expense from continuing operations and relating to stock options of \$5,416 (2006 - \$3,854) has been recognized in the consolidated statement of earnings for the year ending December 31, 2007.

f | STOCK-BASED COMPENSATION EXPENSE

	2007	2006
Stock-based compensation expense relating to:		
Stock options	5,416	3,854
Deferred share units	721	379
	6,137	4,233

g | RECONCILIATION OF WEIGHTED AVERAGE SHARES OUTSTANDING

	2007	2006
Basic weighted average shares outstanding	59,092	39,320
Effect of dilutive securities:		
Stock options	107	456
Diluted weighted average shares outstanding	59,199	39,776

The effect of dilutive securities with respect to stock options is that 445 options (2006 - 1,394 options) are assumed exercised and 338 shares (2006 - 938 shares) are assumed purchased.

15 INCOME TAXES

a | INCOME TAX EXPENSE

The provision for income taxes differs from the result which would be obtained by applying the combined federal and provincial income tax rate of 32.12% (2006 - 32.12%) to the earnings before income taxes. This difference results from the following items:

	2007 \$	2006 \$
Earnings from continuing operations before income taxes	(74,099)	60,290
Earnings from discontinued operations before income taxes	173,916	18,048
	99,817	78,338
Computed income tax expense at statutory rate	32,061	25,162
Increase (decrease) resulting from:		
Non-deductible expenses	2,656	1,729
Permanent differences relating to dispositions of property, equipment and discontinued operations	(23,393)	(884)
Permanent difference relating to loss on goodwill and intangibles	41,299	-
Permanent differences relating to acquisition costs	-	(207)
Reduction in future tax rates	(8,288)	(1,683)
Other	(302)	(52)
Income tax expense	44,033	24,065
Represented by:		
Current income taxes on continuing operations	5,746	6,064
Future income taxes on continuing operations	5,126	12,942
Current income taxes on discontinued operations (Note 22)	32,573	5,009
Future income taxes on discontinued operations (Note 22)	588	50
Income tax expense	44,033	24,065

b | NON-CAPITAL LOSSES, SCIENTIFIC RESEARCH AND DEVELOPMENT EXPENDITURES AND INVESTMENT TAX CREDITS

The Company has non-capital losses available for carry forward totalling \$10,436 (2006 - \$870), of which \$8,993 (2006 - Nil) relates to U.S. entities and \$1,443 (2006 - \$870) relates to Canadian entities. In the prior year, the Company had unused scientific and research and development expenditures of \$162, and unused scientific and research development investment tax credits of \$41. The unused tax pools may be applied to reduce future taxable income and future income taxes payable. Non-capital losses begin to expire in 2016.

c | FUTURE INCOME TAX ASSETS AND LIABILITIES

The components of the Company's future income tax assets and liabilities are a result of the origination and reversal of temporary differences, and are comprised of the following:

	2007 \$	2006 \$
Future income tax assets		
Unused non-capital losses	3,586	279
Unused scientific research and experimental development expenditures and investment tax credits	-	65
Share issue costs and deferred financing cost	2,847	3,304
Deferred share unit plan	287	117
Future tax recovery on income from limited partnerships	865	-
Other	34	-
	7,619	3,765
Future income tax liabilities		
Property and equipment	(68,668)	(48,808)
Intangible assets and other assets	(1,131)	(3,592)
Future taxes on income from limited partnerships	-	(7,356)
Other	-	(4)
	(69,799)	(59,760)
Net future income tax liability	(62,180)	(55,995)

16 SUPPLEMENTARY CASH INFORMATION

(a) During the year, the Company paid and received the following:

	2007 \$	2006 \$
Cash interest paid	(3,996)	(4,878)
Cash interest received	230	242
Cash income taxes paid	(18,799)	(6,035)
Cash income taxes received	684	110

(b) The net change in working capital items other than cash:

	2007 \$	2006 \$
Accounts receivable	(5,269)	1,533
Inventory	(3,747)	2,363
Prepaid expenses and deposits	607	889
Current portion of notes receivable	2,250	(6,045)
Accounts payable and accrued liabilities	(9,483)	159
Income taxes payable	(12,375)	(631)
Current assets held for sale (Note 22)	4,225	-
Current liabilities held for sale (Note 22)	405	-
	(23,387)	(1,732)

	2007 \$	2006 \$
Cash flows from continuing operating activities	(24,158)	4,607
Cash flows from discontinued operating activities	4,630	(477)
Cash flows from continuing financing activities	1,488	-
Cash flows from continuing investing activities	(5,347)	(5,862)
	(23,387)	(1,732)

17 SEGMENTED INFORMATION

The Company's reportable operating segments, as determined by management, are strategic operating units that offer different products and services. The Company has three reportable operating segments: corporate, service rigs, and drilling. The *corporate* segment provides management and administrative services to all its subsidiaries and their respective operations. The *servicing* segment provides well servicing services to the oil and gas industry. The *drilling* segment provides primarily contract drilling services to the oil and gas industry through both conventional and hybrid drilling rigs.

2007				
	Corporate \$	Servicing \$	Drilling \$	Total \$
Revenue				
Oilfield services	-	60,931	309,395	370,326
Other	860	69	2,197	3,126
	860	61,000	311,592	373,452
Operating costs				
Oilfield services	-	39,456	193,481	232,937
Operating margin	860	21,544	118,111	140,515
Depreciation and amortization	430	7,713	25,725	33,868
Interest on long-term debt	1,981	206	1,782	3,969
Impairment loss on goodwill and intangibles	-	736	150,664	151,400
Total assets	225,946	95,844	858,302	1,180,092
Goodwill	-	15,789	293,836	309,625
Capital assets *	16,659	128,838	610,929	756,426
Capital expenditures	12,267	17,882	98,659	128,808

2006				
	Corporate \$	Servicing \$	Drilling \$	Total \$
Revenue				
Oilfield services	-	36,881	204,498	241,379
Rig sales	-	-	5,703	5,703
	-	36,881	210,201	247,082
Operating costs				
Oilfield services	-	21,373	123,466	144,839
Rig sales	-	-	3,848	3,848
	-	21,373	127,314	148,687
Operating margin	-	15,508	82,887	98,395
Depreciation and amortization	282	3,741	13,463	17,486
Interest on long-term debt	4,270	83	844	5,197
Total assets	132,259	58,895	962,326	1,153,480
Goodwill	-	6,272	417,731	424,003
Capital assets *	4,825	52,917	559,487	617,229
Capital expenditures	2,282	16,899	109,187	128,368

* Capital assets include property and equipment, intangibles, and other assets.

Amounts included in the tables above relate to continuing operations only.

The Company operates in two different geographical areas, the breakdown of which is as follows:

	2007			2006		
	Canada \$	U.S. \$	Total \$	Canada \$	U.S. \$	Total \$
Revenue	333,288	40,164	373,452	240,503	6,579	247,082
Total assets	1,103,645	76,447	1,180,092	1,170,678	35,261	1,205,939
Capital assets *	692,944	63,482	756,426	587,715	29,514	617,229

* Capital assets include property and equipment, intangibles, and other assets.

18 RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, during the year ended December 31, 2007:

- Lease revenue, management fees and other fees in the amount of \$3,241 (2006 - \$519), net of inter-company eliminations, were received from partnerships that are owned 50% by the Company. Lease amounts have been recorded as revenue and management and other fees have been recorded as a reduction of either operating expenses or general and administrative expenses in the consolidated statement of earnings.
- In 2007, no management or other fees (2006 - \$136) were paid to a partnership owned 50% by the Company. The amount was included in operating expenses for the period ending December 31, 2006.
- In 2006, the Company sold a 50% interest in 2 drilling rigs (cost \$7,618) to limited partnerships that were 50% owned by the Company. The rigs were sold in exchange for promissory notes plus 50% of the previously unissued partnership units of the limited partnerships.

The related party transactions in (a) and (b) above were in the normal course of operations and have been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties. The related party transactions in (c) above were not in the normal course of operations and have been recorded in these financial statements at the carrying amounts of the assets.

19 JOINTLY-CONTROLLED ENTITIES

As described in Note 3(a), the Company conducts a portion of its business through jointly-controlled partnerships. The Company accounts for its 50% interest in these jointly-controlled partnerships using the proportionate consolidation method. The total amounts and the major components of each of the following relate to the Company's interest in these partnerships:

	2007 \$	2006 \$
Current assets	7,526	11,563
Capital and other assets	22,692	23,510
Current liabilities	1,234	3,306
Long-term debt	8,565	8,790
Revenue	18,331	9,015
Expenses	13,993	5,740
Net income	4,338	3,275
Cash flows resulting from operating activities	5,386	3,728
Cash flows resulting from financing activities	(403)	1,227
Cash flows resulting from investing activities	(195)	(43)

The Company's share of contingencies and commitments relating to these partnerships was \$Nil at December 31, 2007 and 2006.

20 CONTINGENCIES

At December 31, 2007 and 2006, the Company was subject to legal claims and, although the outcome of these matters is not determinable at this time, the Company believes the claims will not have any material adverse effect on the Company's financial position or results of its operations.

21 FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, notes receivable, bank indebtedness, operating loans, accounts payable and accrued liabilities, and long-term debt. As disclosed in Note 3(r) all of the Company's financial instruments were classified as either held for trading, loans and receivables or other financial liabilities. The fair values of the Company's financial instruments were determined as follows:

- i) The carrying amounts of cash, accounts receivable, bank indebtedness, operating loans and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments.
- ii) The fair values of the Company's notes receivable and long-term debt are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risks and maturities. The fair values of these financial instruments are not materially different from their carrying amounts.

At January 1, 2007 and for the year ended December 31, 2007, the Company had no embedded derivatives requiring separate recognition.

The nature of these financial instruments and the Company's operations expose the Company to the following:

a | FINANCIAL RISK MANAGEMENT

The nature of the Company's operations and the issuance of long-term debt expose the Company to fluctuations in foreign currency exchange rates and interest rates. The Company does not manage these risks through the use of derivative instruments.

b | FOREIGN CURRENCY EXCHANGE RISK

The Company is exposed to foreign currency fluctuations as certain revenues and expenses derived from its integrated U.S. operations are denominated in U.S. dollars. Excess U.S. dollar balances are converted to Canadian dollars on a regular basis.

c | INTEREST RATE RISK

- i) The Company's floating-rate notes receivable are subject to interest rate cash flow risk, as the cash received will fluctuate with changes in market interest rates.
- ii) The Company's fixed-rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market interest rates. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates.

At December 31, 2007, the Company had fixed the interest rate on 40% (2006 - 24%) of its operating loans and long-term debt.

At December 31, 2007, the increase or decrease in net earnings from continuing operations before income taxes for each 1% change in interest rates on floating-rate debt amounts to approximately \$353 (2006 - \$1,174) per annum.

- iii) The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk

d | CREDIT RISK

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit to its customers. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers. One customer comprised 17% of revenue for the year ended December 31, 2007 (2006 -15%) and 14% of accounts receivable at December 31, 2007 (2006 - a different customer comprised 11% of accounts receivable). Revenues are primarily denominated in Canadian dollars.

22 DISCONTINUED OPERATIONS

Effective January 31, 2007, the Company closed the sale of its wireline division, Ultraline Services Corporation, for net proceeds of \$209,017.

Immediately prior to the sale, Ultraline declared and paid a dividend of \$5,500 to Savanna, as contemplated under the purchase and sale agreement, which has been eliminated upon consolidation of the financial statements for the current period. Also included in the sale were specific real estate assets and office equipment owned by Savanna.

Revenue from discontinued operations for the year ended December 31, 2007 was \$6,011 (2006 - \$58,243). Net earnings from discontinued operations was \$330 (2006 - \$12,988) net of tax of \$1,175 (2006 - \$5,059) and is included in net earnings from discontinued operations on the statement of earnings and comprehensive income. Stock compensation expense of \$665 (2006 - \$572) has been included in net earnings from discontinued operations for the current period and relates primarily to the remaining unamortized portion of stock compensation relating to options held by Ultraline employees (Note 14(c)).

The gain on sale of discontinued operations was based on net proceeds of \$209,017, comprised of \$208,000 in cash and a working capital adjustment of \$1,118 net of \$101 in legal and property tax expenses. The net book value of Savanna's interest in Ultraline and the related assets that were sold on January 31, 2007 was \$36,606, resulting in a gain of \$172,411 (\$140,425 net of tax) which is included in net earnings from discontinued operations on the statement of earnings and comprehensive income. At December 31, 2007, income taxes on the gain of \$31,986 have been included in income taxes payable.

23 SUBSEQUENT EVENTS

- a) On January 31, 2008, the Company acquired a 50% interest in a drilling rig and related assets for cash consideration of \$4,100. The rig was previously held in a limited partnership that was owned 50% each by Western Lakota and a First Nations community.
- b) On January 31, 2008, the Company sold a 50% interest in a service rig for cash consideration of \$1,600. The rig is now held in a limited partnership that is owned 50% each by Great Plains and a First Nations community.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Elson J. McDougald
Chairman of the Board

Chief Victor Buffalo³
Chief, Samson Cree Nation
of Alberta

John Hooks^{1,3}
Chairman, President and CEO
Phoenix Technology Income Fund

Ken Mullen
President and CEO
Savanna Energy Services Corp.

Kevin Nugent^{1,2}
President
Livingstone Energy
Management Ltd.

James Saunders^{1,2}
Chairman
Twin Butte Energy Ltd.

Tor Wilson^{2,3}
President and CEO
Badger Income Fund

¹ Audit Committee

² Corporate Governance and
Nomination Committee

³ Compensation Committee

OFFICERS

Ken Mullen
President and Chief
Executive Officer

Chris Oddy
Vice President Operations
and Chief Operating Officer

George Chow
Executive Vice President,
Corporate

Darcy Draudson
Chief Financial Officer

Dwayne LaMontagne
Vice President, Finance

Lori Connell
Corporate Secretary

LEGAL COUNSEL

Stikeman Elliott LLP
Barristers & Solicitors
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

BANKERS

TD Canada Trust
Calgary, Alberta

**GE Capital Solutions, a Canadian
Division of GE Commercial Finance**
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Peace Hills Trust Company
Edmonton, Alberta

Royal Bank of Canada
Calgary, Alberta

TRANSFER AGENT

**Computershare Trust Company
of Canada**
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Symbol: SVY

WEBSITE

savannaenergy.com

INVESTOR RELATIONS

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ANNUAL GENERAL MEETING

May 22, 2008 at 2:00 p.m. (MDT)
The Metropolitan Centre
333 – 4th Avenue SW
Calgary, Alberta

SAVANNA ENERGY SERVICES CORP.
www.savannaenergy.com

